

BEFORE THE
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:)
)
ILLINOIS COMMERCE COMMISSION,)
)
vs.) No. 06-0027
)
ILLINOIS BELL TELEPHONE COMPANY)
)
Investigation of specified)
tariffs declaring)
telecommunications services.)
Chicago, Illinois
April 3, 2006

Met pursuant to notice at 10:00 a.m.

BEFORE :

TERRENCE HILLIARD, Administrative Law Judge.

APPEARANCES:

MR. MATTHEW L. HARVEY,
MS. STEFANIE R. GLOVER
MS. BRANDY D.B. BROWN
MR. MICHAEL R. BOROVIK
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Appearing for Staff of the ICC;

MS. LOUISE A. SUNDERLAND
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-and-

SONNENSCHN, NATH & ROSENTHAL, by
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1 APPEARANCES: (CONT'D)

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4 Appearing for the People of the State of
Illinois;

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6 MS. JULIE SODERNA
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Chicago, Illinois 60604
7 Appearing for CUB;

8 MR. MICHAEL WARD
1608 Barclay Boulevard
9 Buffalo Grove, Illinois 60089
Appearing for Data Net Systems and
10 TruComm;

11 MR. ALLAN GOLDENBERG
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15 MR. THOMAS ROWLAND
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21
22

1		<u>I</u>	<u>N</u>	<u>D</u>	<u>E</u>	<u>X</u>			
2	<u>Witnesses:</u>	<u>Direct</u>	<u>Cross</u>	<u>Re-</u>	<u>Re-</u>	<u>By</u>			
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1 JUDGE HILLIARD: On behalf of the Illinois
2 Commerce Commission, I call Docket 06-0027, the
3 Commission versus Illinois Bell Telephone Company.

4 Can the parties beginning with Staff
5 identifying themselves for the record, please.

6 MR. HARVEY: Thank you, your Honor.

7 Appearing for the Staff of the Illinois
8 Commerce Commission, Matthew L. Harvey, Stefanie R.
9 Glover, G-l-o-v-e-r; Brandy D.B. Brown, and
10 Michael R. Borovik, B-o-r-o-v-i-k, appearing for
11 the Staff of the Illinois Commerce Commission, 160
12 North LaSalle Street, Suite C-800, Chicago,
13 Illinois 60601.

14 MR. GOLDENBERG: On behalf of the Cook County
15 State's Attorney's Office, Allan Goldenberg and
16 Marie D. Spicuzza, Assistant State's Attorneys,
17 69 West Washington, Suite 3130, Chicago, Illinois
18 60602.

19 MS. SATTER: Appearing on behalf of the People
20 of the State of Illinois, Susan L. Satter, 100 West
21 Randolph Street, Chicago, Illinois 60601.

22 MS. SODERNA: Appearing on behalf of the

1 Citizens Utility Board, Julie L. Soderna,
2 S-o-d-e-r-n-a, 208 South LaSalle, Suite 1706,
3 Chicago, Illinois 60604.

4 MS. SUNDERLAND: Appearing on behalf of the
5 Illinois Bell Telephone Company, Louise A.
6 Sunderland and Karl Anderson, 225 West Randolph
7 Street, Chicago, Illinois 60606.

8 MR. WARD: For Data Net Systems and TruComm
9 Corporation, Michael Ward, 1608 Barclay Boulevard,
10 Buffalo Grove, Illinois 60089.

11 JUDGE HILLIARD: Any more appearances?

12 Okay. We've got -- there's several
13 motions filed by the Attorney General's office. Do
14 you have any -- anything you want to say in
15 addition to what you've put in writing?

16 MS. SATTER: We did file a reply on the motion
17 for summary judgment.

18 JUDGE HILLIARD: I've seen it.

19 MS. SATTER: Okay. And we did not respond on
20 the motion regarding the motion to exclude the e911
21 and the wholesale records.

22 And if I could just take a brief minute

1 to just comment on the responses, then I won't file
2 a reply.

3 MR. HARVEY: If I might interject here, your
4 Honor, I think there's a -- this is -- the fact
5 that Ms. Satter feels compelled to reply is my
6 fault for sort of responding to her motion well in
7 advance of you giving any sort of notice that we
8 had to; so that was -- I got the notices confused
9 and to the extent that I don't believe that AT&T
10 Illinois' had a chance to respond in writing.

11 MS. SUNDERLAND: We understood that our response
12 would be due Wednesday.

13 JUDGE HILLIARD: Okay.

14 MS. SUNDERLAND: I mean, that's how we
15 understood your notice that came out.

16 MR. ANDERSON: Friday.

17 MS. SUNDERLAND: That came out Friday.

18 MS. SATTER: Yeah, I think there was some
19 confusion about that motion versus the aggregate
20 information motion.

21 MS. SUNDERLAND: Oh.

22 MR. ANDERSON: My understanding is that

1 Wednesday, our response to your motion to exclude
2 the 911 data is due. Your reply is due Friday.
3 That was my understanding of the schedule.

4 JUDGE HILLIARD: Yeah.

5 MS. SATTER: Is that correct?

6 JUDGE HILLIARD: Well, actually, my intent was
7 that the parties can only be provided the most
8 recent notice, the CLECs would respond in that
9 schedule. But if -- since -- since you haven't
10 and, apparently, you want to, I'll certainly give
11 you the same opportunity.

12 MS. SATTER: Okay. Just to -- maybe for
13 everybody's sake, there are three motions --

14 JUDGE HILLIARD: Right.

15 MS. SATTER: -- that we -- that my office filed.

16 The one is on summary judgment and my
17 understanding is that's fully briefed. Then there
18 was a motion to exclude e911 and wholesale data.
19 There was not a notice set in the schedule for
20 response for that.

21 The third motion was the motion for --
22 to release aggregate information into the public

1 record. That motion was served on the CLECs in
2 0028 last week. That was the motion for which a
3 new briefing schedule was set so that the CLECs
4 would have an opportunity to respond.

5 MS. SUNDERLAND: Oh, that's the Wednesday and
6 Friday?

7 MS. SATTER: That is the Wednesday and Friday.

8 Now, I don't have a problem if the
9 Hearing Examiner wants to give you till Wednesday
10 to respond.

11 JUDGE HILLIARD: We call them Administrative Law
12 Judges.

13 MS. SATTER: Correct. Sorry. Excuse me. Can I
14 say ALJ?

15 JUDGE HILLIARD: Yeah.

16 MS. SATTER: So at this point, this is how the
17 rulings came out. So if you want to allow
18 additional time, then I will respond according to
19 that schedule.

20 JUDGE HILLIARD: All right. Do you want to
21 respond in writing to the motion to exclude the
22 e911 data?

1 MS. SUNDERLAND: Yes, we do.

2 JUDGE HILLIARD: All right. Do you want until

3 Wednesday to do that.

4 MS. SUNDERLAND: Yes, please.

5 JUDGE HILLIARD: All right. Do you want to

6 reply sometime after that?

7 MS. SATTER: Sure.

8 JUDGE HILLIARD: Is Friday soon enough?

9 MS. SATTER: Yes.

10 JUDGE HILLIARD: All right. So then the only

11 one that's fully briefed is the motion for summary

12 judgment?

13 MS. SATTER: That's my understanding, yes.

14 JUDGE HILLIARD: All right.

15 And Staff urges me to take that under

16 advisement pending receipt of information on the

17 case. And although I don't know that I'm fully

18 convinced of the need to do that, I -- I'll defer

19 ruling on it for the time being.

20 MR. HARVEY: Thank you very much, your Honor.

21 MS. SATTER: I would just ask that if you're

22 inclined to defer ruling, that that doesn't

1 necessarily mean until the end of the case when all
2 the briefs are in, because then we would have to
3 brief it, as well.

4 MR. HARVEY: And with respect to that, your
5 Honor, it seems that briefing it would not be a
6 terribly onerous result here since we've fully
7 briefed the motion in question.

8 There may be evidence adduced at hearing
9 that would cause it to -- to be something that we
10 did want to add some legal analysis in our brief.

11 JUDGE HILLIARD: Yeah, I would think you can
12 rely upon your briefs, if, in fact, I let it go,
13 but that's up to you.

14 MR. HARVEY: And I'm not -- I guess speaking
15 from Staff's perspective, we've just not certain
16 what the real urgency is about getting this
17 particular matter resolved.

18 JUDGE HILLIARD: Well, just that it slightly
19 simplifies the case.

20 At any rate, I intend to defer ruling on
21 it for the time being. So let's -- is there
22 anything else?

1 MS. SATTER: I have one more matter.

2 There was an SBC witness Mr. Svanda who
3 has not been scheduled because of trans- -- jury
4 duty, I understand.

5 MS. SUNDERLAND: Yes.

6 MS. SATTER: Having reviewed his testimony, I
7 would like to move to strike his testimony or to --
8 maybe the appropriate motion is a motion in limine,
9 because the purpose of his testimony as stated by
10 him and by other witnesses, particularly,
11 Mr. Wardin, is to talk about matters that are not
12 relevant to whether SBC's services in this case
13 justify competitive classification under 13-502.

14 He's talking about other states, what
15 other states have done. What other states have
16 done does not address 13-502. And he also talks
17 about what he calls the traditional role of a
18 public utility commission and his philosophy. That
19 is not an issue that is before your Honor under
20 13-502 and it's not an issue that was raised by
21 other parties.

22 So we would ask that he -- that his

1 testimony not be offered and admitted, and then, of
2 course, he would not be required to come in.

3 MR. WARD: Data Net and TruComm would join in
4 the motion.

5 MS. SODERNA: As would the Citizens Utility
6 Board.

7 JUDGE HILLIARD: Anybody else?

8 MR. HARVEY: Staff does not join in the motion
9 at this time.

10 MR. GOLDENBERG: Cook County State's Attorney's
11 Office joins in it.

12 JUDGE HILLIARD: You do join?

13 MR. GOLDENBERG: Yes.

14 JUDGE HILLIARD: All right. And I presume --
15 what do you want me to call you, Ms. Sunderland?
16 You're SBC or you're AT&T?

17 MS. SUNDERLAND: We are AT&T Illinois.

18 MR. WARD: Wouldn't Illinois Bell be simpler so
19 we could keep -- for a while?

20 JUDGE HILLIARD: What's your response.

21 MS. SUNDERLAND: I think Mr. Casey will address
22 this recommendation by the AG.

1 JUDGE HILLIARD: Mr. Casey, have you filed an
2 appearance in this case?

3 MR. CASEY: I have not as of yet, Judge. I can
4 file one instanter. I wasn't anticipating having
5 to address your Honor today as Mr. Svanda wasn't
6 going to be appearing today.

7 I will, with the ALJ's leave, file my
8 appearance this afternoon.

9 JUDGE HILLIARD: Okay.

10 MS. SATTER: Is -- is Mr. Casey appearing on
11 behalf of AT&T Illinois?

12 MS. SUNDERLAND: Yes.

13 MS. SATTER: Okay. Okay. That was not clear.

14 MR. CASEY: In response -- well, your Honor, the
15 motion -- the oral motion in limine presented to
16 you today, as best I can understand it, is an
17 opportunity -- an effort to strike certain
18 testimony, although it's not certain as to whether
19 or not it's a motion to strike all the testimony.

20 From what I gather is that, apparently,
21 there's a relevance question in this particular
22 case. Whether it's -- I don't know if your Honor's

1 had an opportunity to take a look at Mr. Svanda's
2 testimony, but I don't believe a relevance
3 objection at this point is timely, nor is it on
4 point or worthy of being granted.

5 The testimony provided by Mr. Svanda
6 specifically responds to certain concerns raised by
7 other intervening -- intervenor witnesses and goes
8 no farther than that.

9 JUDGE HILLIARD: Which intervenor witnesses is
10 it responsive to?

11 MR. CASEY: Mr. Svanda specifically indicates in
12 his testimony that he responds to Dr. Selwyn's
13 testimony, the testimony filed by CUB McKibbin,
14 testimony filed by Data Net witnesses Gillan and
15 Segal, and Staff witnesses Staranczak and
16 Zolnierrek.

17 JUDGE HILLIARD: What's your response -- reply?

18 MS. SATTER: The testimony in this case all
19 address substitutability issues under 13-502.

20 Mr. Svanda himself says that he's talking about the
21 traditional role of a public utility commission and
22 his philosophy as a former regulator. Those issues

1 go way beyond the issues that are raised in this
2 case.

3 In addition, his details and his
4 presentation of filings in Michigan, Wisconsin,
5 Ohio, Indiana, Missouri, Iowa are not relevant to
6 the facts under 13-502. I think what they are is
7 an effort to sway the Commission by suggesting that
8 other states have done something. So the
9 Commission disregard the evidence in this case and
10 do what the other states have done.

11 So not only is it not appropriately
12 responsive to the issues of the case under 13-502,
13 not responsive to the scope as presented by other
14 witnesses, but I think it's improper because it
15 goes beyond what the Commission should be
16 considering.

17 JUDGE HILLIARD: Are you objecting to all of his
18 testimony or parts of it?

19 MS. SATTER: I'm objecting to all of his
20 testimony.

21 MR. WARD: Your Honor, I'd like to add a
22 response to AT&T's comment.

1 Mr. Svanda's testimony states that his
2 purpose of it is to describe -- and I'm on Page 1,
3 Line 17. Describe the traditional role of a public
4 utility commission and his philosophy as a
5 regulator and then how AT&T's application is
6 consistent with what occurs in other jurisdictions,
7 not in Illinois, and then he applied his assessment
8 of the filing.

9 I would concur with what the AG has
10 noted in its motion that it was not responsive to
11 the testimony that was filed. We are not
12 discussing what the criterias for Ohio, Michigan or
13 Missouri or Iowa. And that, basically, what it is
14 is Mr. Svanda's own personal opinion as to how
15 other states have provided competitive
16 classification, not as to how Illinois -- or AT&T's
17 application meets the Illinois criteria.

18 JUDGE HILLIARD: Mr. Casey?

19 MR. CASEY: Judge Hilliard, Dr. Selwyn goes into
20 detail about what happened in Oklahoma. He also
21 references what happened in the state of Washington
22 in his determination as to what is relevant for the

1 ALJ and the Commission to consider.

2 Certainly, if it's okay for them to talk
3 about what the -- what other states have done, it's
4 certainly okay for AT&T Illinois to rebut that and
5 to advise the Commission as to what's occurred in
6 other states.

7 With respect to the relevance of
8 philosophy, if your Honor looks, the testimony
9 provided by the intervenor groups talk -- they
10 really look at limiting or shaping what the
11 considerations for this Commission are and this
12 testimony's directly responsive to that.

13 MR. WARD: And I would again note in response to
14 AT&T -- I don't want to just keep going back and
15 forth, but I think it's important to the point
16 that's before your Honor.

17 Mr. Svanda's prefiled testimony states,
18 itself, why he believes it's relevant in response
19 to Dr. Selwyn and Mr. Gillan, and he says it's
20 because advancements in telecommunications
21 technology -- and I'm on Page 6, Lines 131 and
22 after. Because advancements in telecommunications

1 technology and competitive options occur on a
2 national or regional basis, not on a state-specific
3 basis.

4 Well, that is definitely not relevant to
5 this proceeding. This proceeding is to a
6 state-specific basis; in fact, a very specific
7 state statute. And this -- this gives you an
8 overview of the entire tenor of the testimony that,
9 that is, how these services in his opinion are
10 competitively classified in other states than
11 Illinois.

12 JUDGE HILLIARD: You want to have another shot
13 at this?

14 MR. CASEY: We can play ping-pong, Judge, if you
15 like, but I mean, I can go back to the same point I
16 made before.

17 Dr. Selwyn made it a point to reference
18 what happened in Oklahoma, also what happened in
19 the state of Washington. So it is relevant, it is
20 important, and it does rebut those points as it is
21 important for this Commission to take note of what
22 happened in other jurisdictions.

1 MS. SATTER: If I may, the Oklahoma reference
2 was to a rate change. It wasn't necessarily to a
3 discussion of the regulatory standards that were
4 applied or weren't applied or that should or
5 shouldn't apply here. It was -- a classification
6 was changed; rates went up. That's a fact. It's
7 not an opinion as to whether this Commission should
8 do what Oklahoma did or Michigan did or anybody
9 else.

10 MR. HARVEY: If I might be heard on this.

11 JUDGE HILLIARD: Sure.

12 MR. HARVEY: I note that Section 13-502(c)(2) --
13 13-502(c)(5) allows the Commission to consider any
14 other factors that may affect competition and the
15 public interest that the Commission deems
16 appropriate.

17 I'm not convinced that Dr. Svanda -- or
18 Mr. Svanda's testimony is super-probative of
19 anything, but it does seem as if it might be
20 marginally probative on the -- as some other factor
21 that the Commission might consider.

22 JUDGE HILLIARD: Okay. I'm generally of the

1 mind that having read his testimony, that he is --
2 it's kind of like as Mr. Ward has suggested,
3 everybody else is doing it, so you ought to do it,
4 too; but I don't know that, given the evidence
5 offered by other witnesses, that that may not --
6 and the statutory citation noted by Mr. Harvey,
7 that it necessarily should be excluded.

8 I don't know that it has much weight or
9 merit, but I will not at the present time exclude
10 it ab initio. If you want to renew your motion
11 later on go, go ahead.

12 MS. SATTER: Thank you, your Honor.

13 JUDGE HILLIARD: Okay. Anything else?

14 Call your first witness.

15 MS. SUNDERLAND: Our first witness is
16 Dr. William Taylor.

17 Would you state your full name and
18 business address for the record?

19 THE WITNESS: My name is William E. Taylor. My
20 business address is 200 Clarendon Street, Boston,
21 Massachusetts 02116.

22 JUDGE HILLIARD: Excuse me. I don't think the

1 witness has been sworn.

2 MS. SUNDERLAND: No, I was --

3 JUDGE HILLIARD: Could you raise your right
4 hand.

5 (Witness sworn.)

6 JUDGE HILLIARD: Thank you.

7 MS. SUNDERLAND: Dr. Taylor is now available for
8 cross-examination.

9 MR. HARVEY: Staff is prepared to proceed, if
10 that's suitable to the judge.

11 JUDGE HILLIARD: You can do so.

12 WILLIAM TAYLOR,
13 called as a witness herein, having been first duly
14 sworn, was examined and testified as follows:

15 CROSS-EXAMINATION

16 BY

17 MR. HARVEY:

18 Q. Good morning, Dr. Taylor. My name is
19 Matt Harvey. I'm an attorney for the Staff of the
20 Illinois Commerce Commission. You're no doubt
21 delighted to be here, you know, with it raining
22 sideways and everything, but, anyway, we'll get you

1 out of here as quickly as we can.

2 Now, just so we share an understanding
3 of some of the services that have been reclassified
4 in the AT&T November filing, those include
5 stand-alone access, do they not?

6 A. Yes.

7 Q. And per-use local calling?

8 A. Yes.

9 Q. Vertical features?

10 A. Some, yes.

11 Q. And some miscellaneous services such as
12 directory listings and --

13 A. ISDN, yes.

14 Q. It's amazing that anybody still buys ISDN,
15 isn't it?

16 A. Amazes me.

17 Q. Now, you economists have a concept called
18 price elasticity of the demand, correct?

19 A. Yes.

20 Q. And it's fair to say that the price
21 elasticity of demand for a product refers to how
22 responsive the demand for that product is to

1 changes in the price of it; is that fair?

2 **A.** Holding everything constant, yes.

3 **Q.** Okay. Holding everything else constant.

4 For those of us whose misfortune it is

5 not to be an economist, it'd be fair to say that if

6 people buy relatively smaller amounts of a product

7 when the price increase, the price elasticity of

8 the demand would be high?

9 **A.** It would be negative and the -- and high,

10 yes.

11 **Q.** And the way you index it is if it's

12 negative, it's -- that's a higher -- relatively

13 higher in terms of elasticity, correct?

14 **A.** Yes, we look at the absolute value of the

15 change.

16 **Q.** Okay.

17 **A.** That is, raise the price 10 percent. If

18 demand falls by, say, more than 10 percent, we say

19 that's an elastic service.

20 **Q.** Okay.

21 **A.** If it's less than 10 percent that demand

22 falls, it's called inelastic. Inelastic doesn't

1 mean zero. It just --

2 Q. Okay.

3 A. -- means less than elastic.

4 Q. That's very helpful.

5 And so you'd expect the price elasticity

6 of demand to be relatively low for those things

7 that people tend to view as necessities, correct?

8 A. Not necessarily. Depends upon whether you

9 mean the market price elasticity of demand or the

10 firm price elasticity of demand; that is, baked

11 beans buying are a necessity in Boston.

12 Q. Hm-hmm.

13 A. But the price elasticity of demand is quite

14 high because it's very competitive, there are a

15 hundred different providers and no single provider

16 could raise the price without losing most of his

17 business.

18 Q. Okay. Let's take it for something, let's

19 say, in a sort of economically totally frictionless

20 world, the price elasticity of demand for something

21 like insulin, let's say, would be fairly low,

22 right?

1 **A.** Well, again, if it is one particular
2 provider's insulin, Merck insulin, the answer is no
3 because Merck insulin is just like somebody else's
4 insulin.

5 **Q.** Okay.

6 **A.** But the -- what I think the concept you're
7 pushing towards is the market price elasticity of
8 demand.

9 **Q.** I think taking the whole world of insulin
10 providers and sellers.

11 **A.** Yes. So if every provider of insulin
12 raised his price 10 percent, there would probably
13 not be much change in the demand for insulin.

14 **Q.** Okay. And thank you for clarifying this.
15 It's misfortune that you may have guessed not to be
16 an accountant, I vaguely remember something how
17 cigarettes are inelastic from Econ 101, but that
18 would be two semesters. That would be my total
19 knowledge of two semesters of Econ, so...

20 And you'd expect -- again, what you
21 describe as the whole universe market price of
22 elasticity of demand to be relatively, you know,

1 lower for things that would be seen as luxuries
2 or -- like from a Sharper Image or something like
3 that?

4 A. I think you mean higher.

5 Q. If I do, then...

6 A. And all equal, yes, because the driving
7 feature there is there's always the substitute that
8 every product has, namely, don't buy it.

9 Q. Yeah, which is --

10 A. And there are a lot of things that Sharper
11 Image sells that we don't have to buy.

12 Q. That's -- yes. That's exactly --

13 JUDGE HILLIARD: So demand is inelastic for that
14 or elastic?

15 BY MR. HARVEY:

16 Q. Demand would be, I think, elastic?

17 A. So the market demand for an electronic ear
18 twister would probably be elastic because they
19 raise the price a bit and nobody needs to buy it.

20 JUDGE HILLIARD: Okay.

21 BY MR. HARVEY:

22 Q. And you've already been kind enough to

1 explain to me kind of how this is expressed
2 numerically.

3 Now, if I could solicit your opinion on
4 something here. Staff Witness Dr. Staranczak
5 suggests that the price elasticity of demand for
6 access is in the negative .01 range. Is that your
7 understanding?

8 A. The -- close. The market price elasticity
9 of demand is about half that. I mean, it's a
10 debate between Dr. Selwyn and myself in the
11 testimony, but it is about .005, in my view.

12 Q. Okay. And let's say that it is .00- --
13 somewhere between .01 and .005. That seems to be
14 the universe of debate here; is that correct?

15 A. Sure. And as a practical matter, it
16 doesn't matter much whether it's .01 or .005.

17 Q. Because all of those are extremely low,
18 correct?

19 A. Correct.

20 Q. Okay. That's -- that's fair.

21 And then the answer to that was, yes?

22 A. Correct.

1 **Q.** Okay. Now, if we could discuss price
2 elasticity of demand for local measured calling.

3 Would you agree that the price
4 elasticity of demand for -- and, again, we're
5 referring to markets here, I guess, and you've been
6 kind enough to explain to me how that differs from
7 firm.

8 But you'd agree that the price
9 elasticity of demand for local measured calling is
10 greater than the price elasticity of demand for
11 access?

12 **A.** Yes. I think there is econometric evidence
13 that suggests that's true. And, of course, calling
14 is something that people can do less of, if the
15 price goes up, whereas access is zero/one.

16 **Q.** Okay. And you either have it or you don't
17 is what you're saying?

18 **A.** Yes.

19 **Q.** Okay. Having said that, would you be
20 prepared to accept, perhaps subject to check, that
21 it might have -- that local calling might have a
22 price elasticity of demand of somewhere between

1 five and 20 times higher than access?

2 **A.** Again, talking about the market price
3 elasticity of demand, yes, I guess that's probably
4 true.

5 The numbers I'm thinking of are closer
6 to the five times of .005; but, yes.

7 **Q.** Okay.

8 **A.** I'll give you the bottom of that range.

9 **Q.** All right. Fair enough.

10 Now, the price elasticity of demand
11 for -- and, again, I'm sorry -- the market price
12 elasticity of demand for vertical features, call
13 forwarding and caller ID, would again be -- you'd
14 expect that to be higher than it is for access,
15 correct?

16 **A.** Again, yes, because there are some
17 substitutes for some of those services and the
18 services are discretionary.

19 **Q.** Fair enough.

20 And you'd expect the same to be true
21 of -- we're straying a little off of the lot here,
22 but long distance would be probably more price

1 elastic -- more market-priced elastic than --

2 **A.** Well, the market demand would be more
3 elastic. The econometric literature suggests that
4 the absolute value of the elasticity increases with
5 distance.

6 These are old studies. It's sort of
7 precompetition studies. So I'm not exactly
8 confident that they're correct, but that's a
9 generic summary of a big long literature.

10 **Q.** Okay. Fair enough.

11 Now, my friend and colleague
12 Dr. Staranczak assures me that the world would kind
13 of be an ideal place if you economists -- if it ran
14 the way economists say it should. And while I'm
15 profoundly skeptical of this, let's pretend for a
16 moment that we're in an economist's ideal world and
17 if you could assume that for a minute. Perhaps
18 even a theme park, you know, we have economist's
19 ideal world or something.

20 But, in any case, in the economist's
21 ideal world, you'd agree that firms would set their
22 prices pretty close to the marginal cost, if not

1 absolutely at it, correct?

2 **A.** No.

3 **Q.** And why is that?

4 **A.** Well, because in my theme park, some

5 products are produced with fixed costs. It's not

6 an unusual thing to see.

7 It isn't what's taught in Econ 101

8 generally. But, in my theme park, I have

9 telecommunications services. And as I'm sure

10 you're aware, there are a large proportion of the

11 costs, the network, are fixed; that is, they don't

12 increase as the volume of calling increases. Ergo,

13 in a perfectly competitive world in my theme park,

14 if a firm in my theme park were to charge nothing

15 but marginal cost, they'd all go broke and fade

16 away and they wouldn't be on the tour anymore.

17 **Q.** And thank you for doing that, because your

18 theme park is, in fact, the grubby analog world in

19 which we live, correct?

20 **A.** Scratch grubby, I'll take analog.

21 **Q.** Okay.

22 **A.** I call it an element of the real world. I

1 mean, there's nothing abstract or kind of wrong
2 about having fixed costs. I mean, technology is
3 technology, and some firms provide -- build
4 services, make automobiles, do things that involve
5 small proportions of fixed costs and some firms
6 do -- have large proportions of fixed costs. So
7 you can't ignore that.

8 Q. And I thank you for saying that because
9 that was sort of my next question.

10 In fact, firms do try to seek to recover
11 their fixed costs as a markup over their marginal
12 costs, correct, in the real world and in your theme
13 park?

14 A. Yeah, you have to -- yes. You have to be
15 careful with seek. I mean, it's not the regulatory
16 paradigm where someone tries to recover his costs.
17 In the real world and in the theme park, that's not
18 the way the world works at all. You try to make as
19 much money as possible. And if you don't recover
20 your costs, you're out the door.

21 Q. Okay. So I guess I misused the word seek;
22 but in our real, you know, wet, cold Chicago world

1 in which we live today, the fact remains that firms
2 do indeed try to recover percentage of -- you know,
3 try to recover their fixed and common costs in
4 excess of marginal?

5 **A.** Well, I wouldn't agree. I would say firms
6 try to make as much money as possible, and firms
7 that don't succeed in recovering their costs don't
8 persist. Their assets are used in some more
9 profitable venture.

10 **Q.** Okay. That's fair enough.

11 And since we've left the theme park, as
12 onerous as that does seem, and gone back to the
13 real world, why don't we consider how AT&T Illinois
14 is, in fact, currently pricing reclassified
15 services.

16 MR. HARVEY: I may verge on the confidential
17 here, counsel. I will attempt not to do that, but
18 I will verge on the confidential, if I might.

19 BY MR. HARVEY:

20 **Q.** Now, you'll agree, Dr. Taylor, that the
21 markups for vertical services are -- that AT&T
22 currently assesses in, presumably, its attempt to

1 make as much money as it possibly can are very
2 high, indeed, correct?

3 **A.** My perception is that that's true both
4 today and it's been true for years, even under
5 other regulatory paradigms.

6 **Q.** And it might be hundreds of percent,
7 correct?

8 **A.** Oh, easily.

9 **Q.** Okay.

10 **A.** I mean, just the problem is the incremental
11 cost, which is the markup over which we're talking,
12 is so small for these switched-based features that
13 the percentage markup is almost meaningless.

14 **Q.** Fair enough.

15 And you'd agree that local calls are
16 marked up fairly substantially as well, correct?

17 **A.** I believe that to be true, yes.

18 **Q.** And you'd agree that access is probably
19 marked up at a considerably lower rate than either
20 vertical features or local calling, correct?

21 **A.** You're talking about intrastate switched
22 access or --

1 **Q.** No, I'm sorry.

2 **A.** Oh.

3 **Q.** The network access line, if you will.

4 **A.** Oh. Oh, yes. That is priced very, very
5 close to incremental cost or even below some
6 measures of incremental cost.

7 **Q.** Okay. That's fair.

8 Now, I'm going to take a bit of a
9 liberty with you here, Dr. Taylor. I notice that
10 you've taught at both Cornell and MIT and probably
11 neither of those august seats of learning give
12 multiple choice tests, but I'm going to sort of
13 give you a multiple choice test here today and I'd
14 like to see what your views on this question are.

15 I probably better give one to the court
16 reporter, the important legal person in the room
17 other than the judge.

18 This is something that I will ask to be
19 marked as Staff Cross-Examination Taylor Exhibit
20 No. 1.

21

22

1 (Whereupon, Staff Cross
2 Exhibit No. 1 was
3 marked for identification
4 as of this date.)

5 MR. HARVEY: And I don't really propose to offer
6 this into evidence. It's just for the benefit of
7 Dr. Taylor.

8 MS. SUNDERLAND: Just out of curiosity, why are
9 you marking it, if it's not going to become an
10 exhibit?

11 MR. HARVEY: I just wanted to approach the
12 witness and, you know --

13 MS. SUNDERLAND: Oh.

14 MR. HARVEY: -- do the usual stuff.

15 JUDGE HILLIARD: It makes for a nicer record if
16 we identify all the papers.

17 MS. SUNDERLAND: Excuse me?

18 JUDGE HILLIARD: I said it makes for a nicer
19 record if we identify all the paper that we use.

20 MS. SUNDERLAND: Oh, okay.

21 MR. HARVEY: And, besides, I was just so
22 delighted that I could get it to look as nice as it

1 does, that I just felt the need to offer it into
2 evidence or offer it halfway into evidence.

3 BY MR. HARVEY:

4 Q. Now, I'm going to ask you what economic
5 theory -- sort of classical economic theory would
6 say about the recovery of fixed and common costs
7 among services that have different elasticities --
8 market elasticities of demand.

9 And the choices are, A, economic theory
10 is completely agnostic about the recovery of fixed
11 and common costs; B, fixed and common costs should
12 be recovered by an equal markup on all services,
13 irrespective of their elasticity of demand; C,
14 fixed and common costs should be recovered
15 disproportionately from price-elastic services. In
16 this case, we're thinking of vertical services or
17 local calling. Or, D, fixed and common costs
18 should be disproportionately recovered from
19 price-inelastic services. The markup should be
20 higher on access and lower on vertical services and
21 for local calling in order to somehow maximize
22 societal welfare.

1 And I'm going to put you on the spot and
2 ask you what your answer to that is.

3 **A.** Since you don't have an E, none of the
4 above, I'd go with D. And, in fact, D is quite
5 precise because D, as you look at the end of it
6 says, "in order to maximize welfare." That is,
7 this Commission and people in this room may have
8 different incentives and different intentions as to
9 what -- how prices ought to be set for different
10 purposes. Public interest is involved here and
11 public interest is a fuzzy concept and D is quite
12 precise.

13 It doesn't say necessarily that one
14 should recover more -- a higher proportion of fixed
15 and common costs from price-inelastic services for
16 all purposes, but it is to maximize economic
17 welfare, the sum of consumer surplus, consumer and
18 producer surplus, a technical concept.

19 There is a theorem which corresponds to
20 D under idealized circumstances in economics and
21 that's why I pick it.

22 **Q.** Okay. Fair enough.

1 Just for my own information, if the
2 clause "in order to maximize welfare" were not
3 there, would your answer be the same? Again,
4 assuming the nonexistence of choice E.

5 **A.** Sure. The answer would be, yes, but I
6 would carefully point out that D has the
7 characteristic that it maximizes welfare and it may
8 not be consistent with other societal concerns.

9 **Q.** Okay. Thank you very much, as, you know,
10 you get an A and we'll move on from there.

11 Now, are you aware that AT&T has stated
12 that it intends --

13 MS. SUNDERLAND: Excuse me. That was
14 proprietary.

15 MR. HARVEY: Oh. All right. Strike that. I
16 did not see that as proprietary.

17 MS. SUNDERLAND: It wasn't --

18 MR. HARVEY: Well, it probably should be.

19 MS. SUNDERLAND: The CUB data response?

20 MR. HARVEY: The CUB data response.

21 MS. SUNDERLAND: Yeah, that's proprietary.

22 MS. SODERNA: Yeah, that's proprietary.

1 MR. HARVEY: No, I thought that --

2 MS. SODERNA: That portion of that response.

3 MR. HARVEY: Mine didn't say that.

4 MS. SUNDERLAND: Yes, it did.

5 JUDGE HILLIARD: When it was referred to in

6 cross, it was referred to as proprietary.

7 MR. HARVEY: Well, I ask that that be stricken.

8 And I apologize and prepare to face prosecution of

9 Section 5-108 of the Act.

10 JUDGE HILLIARD: Proceed.

11 BY MR. HARVEY:

12 Q. Well, let me ask you this:

13 Would it be fair -- and I don't think

14 this is necessarily -- you've indicated that firms

15 try to make as much money as they can in the free

16 market, correct?

17 A. Yes.

18 Q. And so it would be your understanding that

19 to the extent that AT&T would reclassify these

20 services as competitive, it'd be completely out of

21 its mind if it didn't try to recover more fixed and

22 common costs from access, correct, in the event

1 that it could?

2 **A.** Well, I think that's circular; that is, if
3 AT&T Illinois believes that if it raises the price
4 of access, its profits will go up, then my guess
5 is, as an economist, that's what they would do.

6 **Q.** And that's what a rational actor would do
7 in that situation, correct, if it --

8 **A.** Yes.

9 **Q.** -- could get away with it?

10 **A.** Well, that's what competitive market forces
11 would cause actors to do.

12 **Q.** Precisely.

13 And, again, if demand for a product such
14 as access were -- is, in fact inelastic, this won't
15 have much impact on the demand for the service,
16 correct, on the market side?

17 **A.** Well, no. I mean, that's the problem. If
18 we're talking for the -- when we talked about the
19 demand elasticity for access, we talked about the
20 marked demand elasticity.

21 If we're going to use that number for
22 this thought experiment right now, you're going to

1 have to assume that every carrier, every provider
2 of a substitute raises its price as well.

3 And if that's the case, then, yes, I
4 would agree there would be a very small change in
5 demand, but that isn't the case that makes sense in
6 the real world.

7 **Q.** Well, what if --

8 **A.** Let me just make it quick.

9 **Q.** Okay.

10 **A.** What I think you're interested in is what
11 happens if AT&T Illinois raises its access price
12 and that's it; nobody else necessarily does. And
13 that's a very different question because people now
14 can substitute. They don't have to give up service
15 if they don't want to pay AT&T's price. They can
16 use a substitute.

17 **Q.** And let's assume for the sake of argument
18 and entirely for the sake of argument that the
19 substitutes in this case are -- for the specific
20 service of the specific configuration are few or
21 none.

22 Again, assuming that the price was

1 inelastic and that the -- or, rather, the demand --
2 market demand was inelastic, and I guess this
3 hypothetical firm might have market power as you
4 economists would describe it, there wouldn't be
5 much effect on demand under those circumstances,
6 correct?

7 **A.** In your hypothetical, if the firm demand
8 elasticity is very small, then there would not be
9 of much effect of a change in price and a price
10 increase would likely be profitable under those
11 circumstances.

12 **Q.** Fair enough.

13 All right. Let's move on to something
14 else here.

15 Just so we're clear, if I use the term
16 "loop," you understand what that means, correct?

17 **A.** Yes.

18 **Q.** And the loop --

19 **A.** This is Chicago.

20 **Q.** Pardon?

21 **A.** This is Chicago. I know the loop.

22 **Q.** Okay. And so in telecommunication sense --

1 **A.** Yes.

2 **Q.** -- it's not the same thing as the loud and
3 circular...

4 The -- it's a facility used to provide
5 access, right?

6 **A.** Correct.

7 **Q.** Makes local calling possible?

8 **A.** Yes.

9 **Q.** Makes long-distance calling possible?

10 **A.** Yes.

11 **Q.** And you can't -- vertical features are
12 useless to anybody that doesn't purchase access
13 through a loop, right?

14 **A.** Just about.

15 **Q.** Okay. Now, some part of the loop cost --
16 and we're in my evil regulatory world that isn't,
17 you know, economistland anymore. Some part of the
18 loop costs are allocated to interstate service,
19 correct --

20 **A.** Yes.

21 **Q.** -- by the FCC?

22 **A.** Correct.

1 Q. And those costs are recovered through the
2 end user common line charge, correct?

3 A. Yes.

4 Q. And that is the fourth -- that's \$4.50, the
5 last time I think it was checked?

6 A. That's correct.

7 Q. Okay. And this is nontraffic sensitive?

8 A. Well, that's what the allocation is called,
9 yes.

10 Q. Okay. And so, in other words, this would
11 be something that AT&T Illinois collects even if
12 the subscriber doesn't make a single call, correct?

13 A. Well, yes, but that has nothing to do with
14 being nontraffic sensitive. The charge to \$4.50 is
15 a monthly flat rate charge.

16 Q. Yeah. Correct.

17 A. So whoever charges it recovers it
18 irrespective of calling.

19 Q. Okay. That's, I think, what I meant.
20 Forgive me for -- for that.

21 Now, these -- the charges that the EUCL
22 recovers -- and that's just as a euphemism for end

1 user common line charge, correct?

2 **A.** Yes.

3 **Q.** Used to be recovered through interstate

4 access, correct?

5 **A.** Well, a large portion of them used to be

6 recovered from -- on a usage basis from switched

7 access interstate, yes.

8 **Q.** Okay. And then that means those charge --

9 access charges were then sort of folded into long

10 distance rates, correct, as you understand it?

11 **A.** Well, carriers that provided long distance

12 service essentially had to pay those per-minute

13 rates. So they had -- that was one of their costs.

14 **Q.** Okay. And those rates are traffic

15 sensitive?

16 **A.** The rates are. They're charged where --

17 and still are a little bit charged on a

18 per-minute-of-use basis, yes.

19 **Q.** Okay. So the imposition of a EUCL resulted

20 in generally lower interstate rates in your view

21 or --

22 **A.** Lower interstate switched access rates,

1 higher interstate flat rate than the EUCL.

2 Q. And you would expect those to have resulted
3 in lower long distance charges as well?

4 A. Yes.

5 Q. Okay. Just a couple other things,
6 Dr. Taylor.

7 If I could direct you please to your
8 rebuttal testimony on Page 65.

9 A. Yes.

10 Q. All right. Line about 1500, by my
11 pagination, you state that there is no evidence to
12 support Staff's assumption that the current level
13 of revenue for residential access, local usage and
14 vertical services is just the level of revenue and
15 underlying prices that a competitive market would
16 sustain, correct?

17 A. Yes.

18 Q. Okay. Now, from what you conclude -- well,
19 strike that.

20 Where specifically in any Staff
21 testimony does anyone state that the current level
22 of revenue for residential access is just that,

1 that a competitive market would sustain?

2 **A.** The narrow question, I don't think anyone
3 does. The question --

4 **Q.** And that really honestly was the question I
5 was asking.

6 **A.** Well, be careful. By narrow question, you
7 said access, I said access, usage and vertical
8 services.

9 **Q.** Okay.

10 **A.** And that is in Staff's testimony.

11 **Q.** Okay. And where would you find that in
12 Staff's testimony?

13 **A.** Well, I'm -- where I'm citing from is
14 Dr. Staranczak, whose view is that if rate -- if a
15 rate increase is to take place for access service,
16 which Dr. Staranczak believes is priced below
17 competitive market level, that there must be an
18 offsetting revenue-neutral introduction coming from
19 usage in vertical services.

20 And the implication from that is that I
21 believe Dr. Staranczak must believe that the
22 revenue that comes from residential access usage

1 and vertical services all together is somehow the
2 right number, because he says you want to raise the
3 revenue that's coming from access, but you must
4 lower the revenue that's coming from elsewhere.

5 So it seems to me he's saying the sum of
6 those is just right.

7 **Q.** Or mandated by the Illinois Bell Telephone
8 alternative regulation plan; you suggest that's
9 possible as well?

10 **A.** Well, it may be -- it's certainly possible,
11 but it's sort of irrelevant because we're talking
12 about classifying services outside that.

13 **Q.** And --

14 **A.** So the services that we're speaking of
15 here, Illinois -- AT&T Illinois, as I understand
16 it, has reclassified them as competitive. So the
17 price cap plan would not apply -- does not apply to
18 them.

19 **Q.** Which is -- but, essentially, the services
20 to which you're referring are services for which
21 the classification, the propriety of the -- the
22 classification is at issue in this proceedings,

1 correct?

2 **A.** Yes.

3 **Q.** So if you take the view that, for example,
4 residential network access line is not competitive,
5 it would stay in the price cap plan, right?

6 **A.** If the Commission takes that view, yes.

7 **Q.** Fair enough.

8 **A.** Doesn't matter what view I take.

9 **Q.** Then it would be a relatively -- then the
10 revenue would remain fixed, wouldn't it, whether
11 anybody liked it or not?

12 **A.** Well, if the Commission were to determine
13 that these three services remained under the price
14 cap plan, then we could all go home. I mean, there
15 is no reason to be looking at Staff's testimony.

16 Dr. Staranczak's point that he believes
17 the world would be a better place if local access
18 rates went up and usage and vertical services went
19 down is a useful addendum to the price cap plan,
20 but it has no effect because we would have had to
21 already decided that these services aren't
22 competitive.

1 **Q.** Well, fair enough.

2 Just a couple more things here,
3 Dr. Taylor. If I could direct you to Page 30 of
4 your rebuttal testimony. 3-0 rebuttal testimony.

5 **A.** Yes.

6 **Q.** There, you state that, With the exception
7 of the American Consumer Institute, all the studies
8 above, which refer to above in your testimony,
9 estimated a Voice-Over-Internet Protocol
10 penetration rate of close to four percent. And
11 when added to the estimates of wireless cord
12 cutting, the two intermodal services together
13 contribute a significant constraint to AT&T's
14 wireline prices; is that fair?

15 **A.** Yes.

16 **Q.** Okay. Now, is this statement specific --
17 well, are the studies cited that you refer to
18 specific to MSA-1 here in Illinois?

19 **A.** No.

20 **Q.** And I take it, by the way, that you
21 apparently think the American Consumer Institute
22 study is somehow outlier of some sort?

1 **A.** Well, it's answering a slightly different
2 question.

3 **Q.** Okay.

4 **A.** It's how many people have actually made a
5 VOIP call, and that's probably a very large
6 fraction of us, but it's not the issue that the
7 others address.

8 **Q.** Okay. Now, since it's your testimony that
9 this is not specific to MSA-1 -- well, no. Strike
10 that. That's all I needed to know.

11 Well, let's switch over to Page 32 of
12 your rebuttal. And there, you discuss the criteria
13 economists use to define a geographic market and
14 that the fact that you concluded that the Chicago
15 LATA was the best market -- you know, sort of model
16 for a market.

17 Now, you understand that Verizon North
18 provides service in a very small part of MSA-1?

19 **A.** Yes.

20 **Q.** And our good friends at Tonnicut (phonetic)
21 Telephone Company do as well, correct?

22 **A.** I think I read that.

1 **Q.** I mean, not that you should know that,
2 but...

3 Now, is Verizon's service area within
4 MSA-1 something you think should be included in the
5 geographic market you propose?

6 **A.** No. The main reason I say that is because
7 the evidence that I've looked at has been the
8 offerings of AT&T Illinois in that market.

9 So I have not studied what -- what
10 Verizon's offerings are. By being in the same
11 geographic area, they're open to the same flood of
12 marketing which comes from AT&T Illinois and other
13 carriers that serve in MSA-1. But, of course, the
14 ones that come from AT&T Illinois aren't terribly
15 relevant because AT&T Illinois, I believe,
16 doesn't -- doesn't serve in those territories
17 today.

18 **Q.** Well, you know, the behemoth that is the
19 Tonnicut Telephone Company wouldn't probably stand
20 for it. So I suppose that we shouldn't be
21 surprised.

22 But, again, AT&T -- or, rather, Verizon

1 and Tonnicut don't charge the same rates either
2 as -- that you know of?

3 **A.** Right. Yes. My understanding is that
4 their rates are in order of magnitude almost
5 higher. Not in order of magnitude, but they're
6 twice, three times.

7 **Q.** An order of magnitude would be ten times,
8 yes, but I understand.

9 **A.** Yes. Let me not exaggerate.

10 **Q.** Let me ask you a question related to your
11 rebuttal on Page 48 where you suggest that you --
12 Dr. Selwyn's almost exclusive focus on CLEC as a
13 source of competitive supply is somehow a
14 questionable proposition.

15 In your opinion, are CLECs alone a
16 sufficient source of competitive supply to warrant
17 reclassification in MSA-1?

18 **A.** Yes, I think they are and I think the
19 evidence implies that looking simply at CLEC and
20 making sure we're talking the same language, CLECs
21 include Comcast, for example. Then the answer is
22 surely.

1 MR. HARVEY: Well, you know, thank you very much
2 for your patience, Dr. Taylor.

3 That's all I have for you.

4 THE WITNESS: Thank you, Mr. Harvey.

5 MS. SODERNA: I'm sorry. CUB doesn't have any
6 cross for Mr. Taylor.

7 MS. SATTER: I have a few questions.

8 CROSS-EXAMINATION

9 BY

10 MR. GOLDENBERG:

11 Q. Good morning.

12 A. Good morning.

13 Q. I'm trying to get Matt to give me the
14 answers to the rest of the test.

15 A. Closed book. I'm sorry.

16 Q. You currently work with NERA, don't you?

17 A. Yes.

18 Q. And how long have you been there?

19 A. 1988. 18 years.

20 Q. Now, approximately how many
21 telecommunications cases have you testified in?

22 A. Couple of hundred.

1 **Q.** And have you ever testified on behalf of a
2 nongovernmental consumer party?

3 **A.** A nongovernmental consumer?

4 **Q.** Party.

5 **A.** Party.

6 No, not that I would know.

7 **Q.** Have you previously testified on behalf of
8 AT&T or an affiliate? We'll consider the merged
9 companies.

10 **A.** Yes, I've testified on behalf of what is
11 now AT&T or its affiliates.

12 **Q.** Have you testified in similar proceedings
13 to the one we're doing here?

14 **A.** Yes.

15 **Q.** Which ones?

16 **A.** Wisconsin, Michigan for AT&T. I'm sorry.
17 Keeps -- makes it -- I'm very -- it's very hard for
18 me to say AT&T when I mean SBC, but that's what I
19 mean.

20 MS. SATTER: You're not alone.

21 THE WITNESS: And for other local exchange
22 carriers in similar proceedings.

1 BY MR. GOLDENBERG:

2 Q. Okay. Now, referring to your direct
3 testimony, I don't know that you're going to
4 necessarily look at it to answer these question,
5 but you're welcome to it.

6 On Page 4 to 5 starting around
7 Lines 116, you set out the statutory guidelines for
8 reclassifying telecommunications services as
9 competitive under the Public Utilities Act?

10 A. Yes.

11 Q. Now, you're not an attorney, are you?

12 A. By no means.

13 Q. So when you testify on Page 5 starting
14 around Line 144 to what the Public Utility Act
15 requires from an economic perspective, you would
16 agree that what the law requires is always -- is
17 not always the same as what an economic perspective
18 requires, correct?

19 A. I can't speak to what the law requires.

20 Q. But they're not always the same. The law
21 can require one thing and good economic theory
22 could require something else?

1 **A.** I would certainly agree with that, yes.

2 **Q.** On Page 9 of your direct testimony -- and,
3 again here, I'm looking at somewhere around
4 Line 223, you talk about how economists define a
5 geographic market.

6 **A.** Yes.

7 **Q.** And on Line 224, you indicate it is a
8 geographic area which sellers provide products or
9 services that customers treat as substitutes for
10 one another and, thus, which compete against one
11 another; is that right?

12 **A.** Yes.

13 **Q.** Yet, in dealing with wireline
14 telecommunications, might different customers have
15 different options sort of available in these types
16 of situations?

17 **A.** Well, it's certainly the case in different
18 geographic areas. The choices that any individual
19 customer may have may be different depending on
20 where you live.

21 If you live in the loop, the Chicago
22 loop, you may have a different choice of suppliers

1 for local telephone services or anything else, for
2 that matter, than if you live in an outlying
3 suburb.

4 Q. And it's really sort of -- in this
5 particular discussion I'm having in terms of the
6 relevant market and dealing again with wireline,
7 it's the wire that sort of makes the difference
8 and, so to say, limits options, is that correct,
9 because not everybody can just run in and run a
10 wire and start a company?

11 A. Well, no. I think I'd disagree with that.
12 I mean, the --

13 Q. You think from --

14 A. The telecommui- --

15 JUDGE HILLIARD: Wait a minute. Let him finish
16 before you ask another question.

17 Go ahead.

18 THE WITNESS: Sorry. I'm just going to explain
19 why I disagree.

20 The Telecommunications Act made it
21 possible for anyone to not run a wire, but use a
22 wire that's already there to use the ILEC's wire.

1 So the -- there's a great deal more CLEC
2 competition, that is, competition that uses the
3 ILEC's network, and the barriers to entry for such
4 people are pretty low.

5 BY MR. GOLDENBERG:

6 **Q.** Right. But depending on how you choose to
7 either run the wire or rent the wire or use the
8 wire, there's different costs involved; is that
9 correct?

10 **A.** Sure.

11 **Q.** And those costs might influence a company's
12 choice as to whether, you know, economically, they
13 could afford to do it that particular way and still
14 make a reasonable profit such that their investors
15 would be satisfied; is that correct?

16 **A.** Yes. We see a variety of technologies
17 being used to serve local customers. We have
18 wireless. We have cable. We've got ILEC. We've
19 got CLEC, resale, UNE-P, LWC. We've got a whole
20 lot of different technologies being used at the
21 same time to serve customers.

22 **Q.** Now, on Page 12 of your direct testimony,

1 you indicate at Lines 310 and 311 that determining
2 which geographic area best meets the economic
3 criteria for a geographic market is a matter of
4 judgment, and then you go on Page 13 at Lines 334
5 to look at how the LATA, L-A-T-A, DMA and MSA
6 compare; is that correct?

7 A. Yes.

8 Q. And then you share your view on how you
9 would define a relevant geographic market for the
10 purposes of implementing 13-502 of the Illinois
11 Telecommunications Act; is that correct?

12 A. Yes.

13 Q. And you conclude ultimately that the
14 Chicago LATA best meets these considerations; is
15 that correct?

16 A. Yes.

17 Q. What quantitative analysis did you conduct
18 to reach that conclusion?

19 A. I don't believe I used any quantitative
20 analysis. The analysis that was done was --

21 MR. GOLDENBERG: Again, I'd object to -- and
22 move to strike anything beyond that. I just asked

1 what -- they can ask him on redirect what else he
2 did.

3 JUDGE HILLIARD: I'd like to hear his answer.

4 Overruled.

5 THE WITNESS: The qualitative evidence that I
6 cite is technological; that is, what the size of a
7 geographic area that is most efficiently served by
8 a telephone company would be; that is, the reach of
9 its switches and the reach of its mass market
10 capability; that is, its advertising. And then,
11 finally, the decisions that other regulatory
12 agencies have made using those same concepts.

13 BY MR. GOLDENBERG:

14 **Q.** What Illinois-specific data did you review?

15 **A.** I looked at the geography and the number of
16 households and access lines in the LATA, the DMA
17 and the MSA.

18 **Q.** Did you review any Illinois Commerce
19 Commission cases with respect to seeing what the
20 local policies might be on these issues?

21 **A.** Trying to remember.

22 We did file issues in a related case,

1 namely, the TRO, which had an element of geographic
2 market definition, but I don't remember what the
3 outcome was and it's a different market.

4 **Q.** Did you look at any Illinois court cases
5 for policy guidelines?

6 **A.** No.

7 **Q.** On Page 15 of your direct testimony, you
8 talk about the United States Supreme Court case of
9 Brown Shoe. Do you remember that discussion?

10 **A.** Yes.

11 **Q.** And you use it to talk about how they
12 define the retail shoe market. You would agree
13 that there's differences between shoes and
14 telecommunications wouldn't you?

15 **A.** I think I would.

16 MR. HARVEY: There has to be a Maxwell Smart
17 joke there somewhere.

18 MR. GOLDENBERG: Go for it.

19 MR. HARVEY: Just trying to tee you off.

20 BY MR. GOLDENBERG:

21 **Q.** Let's look for a moment at services offered
22 by different technological means.

1 On Page 16 and 17 at around Lines 397 to
2 400, you state, In addition to competing services
3 offered by completely different technological
4 means, parenthetical, such as wireless or VOIP
5 systems, end parenthetical, which you also would
6 belong -- I'm sorry, would also belong in the
7 relevant economic market for AT&T Illinois'
8 residential local exchange service as long as those
9 services are demand substitutes from the
10 perspective of the customer.

11 Are you familiar with that part of your
12 testimony?

13 **A.** Yes.

14 **Q.** Yet, would you agree that the perspective
15 of the customer is always going to be relevant in
16 this area?

17 **A.** Yes.

18 **Q.** To the extent that a customer does not view
19 the product as a demand substitute, then would it
20 eliminate the service for the purposes of your
21 analysis?

22 **A.** What do you mean by eliminate the service?

1 **Q.** Well, you would no longer consider it a
2 functionally equivalent or substitute?

3 **A.** Oh, no. I mean, it -- it may not be
4 functionally equivalent for that customer. What
5 matters is that when the price of a service
6 changes, how many customers adjust their demand to
7 that change.

8 So it can well be the case that even if
9 the average customer thinks these services are
10 different and would never touch one, always prefers
11 another, there can certainly be enough marginal
12 customers -- doesn't have to be true of the
13 average, but the marginal customer can move enough
14 to control a company's ability to raise prices.

15 **Q.** Now, to help us understand that last
16 thought, assume a universe of a hundred customers.

17 At what point along the continuum
18 between one and a hundred would it actually make a
19 difference to your conclusion?

20 **A.** Well, if I were to use, for example, the
21 Department of Justice merger guidelines notion for
22 determining things like this, I would say that if,

1 in response to a five percent price increase, six
2 percent of your -- six of your hundred customers
3 left and this service had the same technological
4 attributes as local exchange service does, then
5 that price increase would not be profitable and
6 using the five percent price increase standard that
7 the DOJ uses, that price increase -- that firm
8 would not have market power.

9 So the answer is six under the
10 hypothetical that I constructed.

11 **Q.** On Page 17 -- and I'm looking around
12 Line 412 or referring to around Line 412 of your
13 direct testimony, you define economic perspective
14 and you indicate how you would define the term
15 "other providers."

16 **A.** Yes.

17 **Q.** You go on to indicate with respect to
18 wireless phones that in today's marketplace, they
19 clearly constitute substitutes; is that correct?

20 **A.** Yes.

21 **Q.** Would you agree that if wireline customers
22 would not shift to wireless, then they are not

1 substitutes and should not be considered other
2 providers?

3 **A.** Yes. The technical definition of a
4 substitute for an economist is if you raise the
5 price of wireline service and customers do not go
6 or the demand for wireless does not go up, then
7 they are not substitutes.

8 **Q.** On Line 444 in Page 18 of your direct, you
9 indicate that Section 13-502(c)(1) does not require
10 competitors to achieve any particular share of the
11 market.

12 Do you think there's any minimum level
13 before you would conclude it is available?

14 **A.** Well, if you're asking me for a legal
15 conclusion, I can't help you.

16 **Q.** I'm asking --

17 **A.** Economically --

18 **Q.** I'm asking you again, you laid out the
19 statute. You said you weren't a lawyer. You say
20 you were presenting things from an economic
21 perspective. I'm just asking consistent with what
22 you presented.

1 **A.** Then the answer is no. If you have a firm
2 has the ability to enter with low or no fixed costs
3 in response to a price increase, both I and the
4 Department of Justice considers that firm in the
5 market and that's the equivalent of offering
6 service under the statute.

7 **Q.** So under that view, would one customer
8 qualify?

9 **A.** You mean, if a firm had one customer today,
10 but had no barriers to entry to serve a thousand
11 customers; then, yes.

12 **Q.** When looking at Illinois telecom data, you
13 indicate an important feature in these data is the
14 fact that total access lines in Illinois have
15 fallen steadily since 1999 despite the fact that
16 Illinois population has increased.

17 Have you done any independent research
18 to determine why?

19 **A.** To determine why?

20 **Q.** Yes. Have you done any independent
21 research to determine why?

22 **A.** No, I've looked at price changes, but that

1 doesn't help.

2 Q. On Page 22, starting around Line 41, when
3 you discuss CLEC competition, you rely on the
4 testimony of Moore and Wardin?

5 A. I'm sorry. Line 481?

6 Q. On Page 22.

7 A. Yes.

8 Q. You did not do your own independent
9 research on the Illinois market, did you?

10 A. No.

11 Q. Are you familiar with what percentage of
12 CLECs are a hundred percent facilities-based?

13 A. What percentage of CLECs are a hundred
14 percent facilities-based?

15 Well, the only one I can think of -- the
16 only two I can think of are the cable companies and
17 they're a large fraction of lines.

18 Q. To the extent CLECs rely on AT&T's
19 facilities, would you agree that the price these
20 facilities are offered to CLECs is a factor to
21 consider under any economic analysis looking at the
22 Illinois -- looking at Illinois law?

1 **A.** I'm with you until the last three words.

2 Without looking at Illinois law, sure.

3 Input prices are an important element of a firm's

4 profitability.

5 **Q.** Now, when you talked about facilities-based

6 CLECs, you mentioned the cable companies, correct?

7 **A.** Correct.

8 **Q.** Are you familiar with the technical

9 differences between phone service offered by cable

10 versus traditional wireline phones?

11 **A.** Not as an engineer; but as an economist,

12 sure.

13 **Q.** For example, if the power goes out, would

14 the phone service continue to work with each of the

15 two options?

16 **A.** It depends. Sometimes it does. Sometimes

17 it doesn't. There are --

18 **Q.** But you'd agree cable's powered differently

19 than a wireline phone from AT&T Illinois, wouldn't

20 you?

21 **A.** That's correct.

22 **Q.** If the power goes out in your home and you

1 have a wireline phone from AT&T Illinois, as a
2 general matter, would the phone still work?

3 A. No, not in my house because I have
4 wireless -- cordless phones and they don't --

5 Q. If you didn't have a cordless phone, would
6 the phones service --

7 A. Oh, I could -- if it's important to me, I
8 can buy a phone that hooked up to AT&T Illinois
9 service, will work when Illinois' and my power goes
10 out, that's correct, if it not important to me --

11 Q. But you'd agree that there's differences in
12 the technologies between cable and a regular
13 wireline phone that might make differences to
14 individual consumers, depending on how they're
15 using it?

16 A. Oh, certainly.

17 Q. And for a certain universe of consumers in
18 the AT&T Illinois service area, they may feel that
19 only a wireline technology meets their needs; is
20 that correct?

21 A. Well, certainly, that's possible. My --
22 the issue --

1 **Q.** Go ahead.

2 **A.** Certainly, that's a logical possibility.

3 **Q.** Isn't wireless service currently more of a
4 complementary service in the average consumer's
5 mind as opposed to a substitute service?

6 **A.** Not in an economist mind, no. And ask
7 yourself the question, what happens when wireline
8 prices go up? Do you buy more or do you buy less
9 wireless service?

10 **Q.** Again, I wasn't asking from an economist's
11 view. I was asking from your understanding as an
12 economist of the average consumer's view.

13 Doesn't the average consumer view it
14 more as a substitute?

15 **A.** Well, I'm sorry, but complement and
16 substitute are economic terms of art. So I can
17 only -- I know what those mean. I don't know what
18 an average person might mean by complement or what
19 you mean, I guess.

20 **Q.** Would you agree that the majority of
21 consumers, when they go out and buy a wireless
22 phone, are buying it in addition to their wireline

1 phone?

2 **A.** Today, that's certainly the case.

3 **Q.** Would you agree that 911 services are

4 important to consumers?

5 **A.** To some consumers, sure.

6 **Q.** What about service quality, would you agree

7 that that's important to consumers?

8 **A.** Oh, yes. And service quality has many

9 dimensions.

10 **Q.** And would you agree that there's a

11 difference in service quality between a wireless

12 phone and a wireline phone?

13 **A.** Sure. Wireline phone works very poorly in

14 your car.

15 **Q.** Have you done any kind of analysis in the

16 AT&T Illinois service area with respect to dead

17 zones?

18 **A.** No.

19 **Q.** Have you done any analysis in the AT&T

20 Illinois service area with respect to dropped

21 calls?

22 **A.** No.

1 JUDGE HILLIARD: Are you referring to wireless
2 service or wireline service?

3 MR. GOLDENBERG: Wireless. I'm sorry.

4 JUDGE HILLIARD: Pardon me?

5 MR. GOLDENBERG: Wireless.

6 THE WITNESS: The answer is no.

7 BY MR. GOLDENBERG:

8 Q. On Page 26 of your direct testimony,
9 looking at around and directing your attention to
10 around Line 535, you talk about voice-over IP being
11 a reasonable substitute for standard wireline; is
12 that correct?

13 A. Correct.

14 Q. Are there circumstances under which for
15 certain customers where this would not be true; for
16 example, a nursing home resident?

17 A. Well, there may be technological
18 differences in the way some VOIP services are
19 provided which might not be appropriate for some
20 use uses.

21 Again, it is customers at the margin
22 which determine whether a price increase for

1 wireline service is profitable or not.

2 **Q.** If a consumer had serious economic issues
3 and was looking for a residential phone, would
4 voice-over IP raise more challenges than a
5 traditional wireline phone?

6 **A.** Raise more challenges? I mean, there are
7 certainly some customers for whom that might be
8 difficult because you have to plug -- you might
9 have to plug one more plug in than you do for a
10 wireline phone, but they're others --

11 **Q.** Again -- I'm sorry. I'm looking at the
12 financial side. Maybe my question wasn't clear.

13 **A.** Oh, I'm sorry. I missed that.

14 Could you ask it again?

15 **Q.** Yeah, I'm sorry. I'll try and rephrase it.

16 If a customer has serious economic, and
17 by that, I mean financial issues, assume --

18 **A.** Low income.

19 **Q.** -- low income, assume unemployed, assume,
20 you know, fixed income, not at a high level. And,
21 again, I don't think the level's important. But
22 for the purpose of my question, will you concede

1 that voice-over IP might be an economically or
2 financially challenging option for that universe of
3 customers as opposed to just buying a network
4 access line, i.e., a wireline from AT&T Illinois
5 or --

6 **A.** No, I don't think I would concede that. It
7 depends upon whether the customer in question has
8 broadband access.

9 For those customers, I believe, class
10 that we've described that already have broadband
11 access, then the price of VOIP service and the
12 price of a wireline telephone service from
13 Illinois -- from AT&T Illinois, for example, are
14 comparable.

15 **Q.** Assume the customer can't afford that
16 broadband access.

17 **A.** If a customer doesn't have broadband
18 access, then that customer -- it would be expensive
19 for such a customer to buy both broadband access
20 and VOIP service.

21 **Q.** Are you familiar with 911 issues as they
22 relate to voice-over IP customers?

1 **A.** Generally, I am. I think Mr. Shooshan is
2 the local expert on that.

3 **Q.** And what's your understanding?

4 **A.** My understanding is that the FCC has
5 required that e911 service be made available by
6 VOIP providers, which is comparable to that e911
7 service that wireline carriers provide.

8 We are somewhere in the process of VOIP
9 suppliers meeting that deadline for all of their
10 customers. I don't think we're quite there yet.

11 **Q.** On Page 32 of your direct testimony around
12 Line 641, you indicate the fact that UNE-P is
13 scheduled for elimination does not affect your
14 opinion; is that correct?

15 **A.** Yes.

16 **Q.** Yet, would you agree that UNE-P elimination
17 may ultimately affect prices?

18 **A.** Well, UNE-P elimination would affect the
19 price that CLECs likely would pay for a UNE-P-like
20 service. Whether it affects the price that
21 consumers pay for telephone service, if that's your
22 question, is another -- another issue, because

1 CLECs compete not simply against wireline carriers,
2 but they compete against the same wireless and VOIP
3 carriers who aren't affected by UNE-P or anything
4 like that.

5 Q. On Page 33 of your direct testimony, you
6 talk about barriers to entry.

7 Would you agree that the wiring to a
8 consumer's home is a barrier to entry?

9 A. I think I would agree that it is a pro- --
10 that providing such a wire entails a large amount
11 of sunk and fixed costs. And, therefore, building
12 it yourself, if that were your alternative, I would
13 agree. Under the Telecommunications Act as we
14 discussed earlier, that's not necessary. So it
15 doesn't constitute a barrier to entry. You could
16 use AT&T Illinois'.

17 Q. Are you aware of to what extent in the AT&T
18 Illinois residential market companies are actively
19 pursuing residential customers who have just an
20 access line and usage?

21 A. Well, when you say actively pursuing, I
22 trust you mean marketing and --

1 **Q.** Marketing at any level.

2 **A.** And, no, I really haven't studied that. I
3 think Mr. Wardin can speak to that. But it's
4 obvious that low volume, low usage customers, fine
5 people though they are, are not the most profitable
6 customers that entrants or incumbents seek to
7 serve.

8 AT&T Illinois serves them. They're
9 obliged to serve them and that's fine, but they
10 aren't high-profit customers, particularly at
11 current regulated prices.

12 **Q.** For example, you talked earlier about
13 Comcast in terms of having lines into the homes in
14 the AT&T Illinois service territory; is that
15 correct?

16 **A.** Yes.

17 **Q.** Are you aware of whether Comcast is
18 actually offering an access-line-only type service
19 to consumers?

20 **A.** I am not, no.

21 **Q.** Would you expect them to, based on your
22 understanding of the economics?

1 MS. SUNDERLAND: Either they do or they don't.
2 I don't think speculation serves us much here.
3 JUDGE HILLIARD: So that's an objection?
4 MS. SUNDERLAND: That's an objection.
5 MR. GOLDENBERG: I think he -- I think what we
6 are trying to look at is what's a functional
7 equivalent and they're trying to argue it's a
8 functional equivalent. The statute breaks that
9 down very specifically as to different areas. I
10 think we're entitled to hear what he has to say in
11 terms of his opinion.
12 JUDGE HILLIARD: Okay. Overruled.
13 THE WITNESS: My opinion is I don't know
14 precisely what usage levels Comcast builds its
15 packages to serve.
16 However, what I do know is that Comcast
17 has offerings that are attractive to AT&T Illinois
18 customers and that even low-volume customers,
19 customers that, hypothetically, Comcast doesn't
20 seek to serve and wouldn't serve, are protected
21 because other customers, that is, AT&T Illinois
22 customers, who do have -- who buy basic exchange

1 service, who buy local usage and who buy toll usage
2 have enough volume, enough revenue generation that
3 they find Comcast packages attractive.

4 And it isn't that the low users are
5 going to move to Comcast. It's going to be the
6 other people, other customers, higher user
7 customers, but those who buy the same services that
8 the low user customers do that controls the price
9 that the low user customers have to pay.

10 **Q.** Right. But my question was just looking at
11 the access-line-only customer --

12 **A.** Well, that's --

13 **Q.** -- and whether you thought companies like
14 Comcast would ultimately seek to serve that
15 customer --

16 **A.** Well, ultimately --

17 **Q.** -- that just wants the 10 or \$15 line --

18 **A.** Sure.

19 **Q.** -- they don't want bundled. They don't
20 want a package. They don't want cable. They want
21 nothing; just the line.

22 **A.** And the answer is, ultimately, yes; that

1 is, if the service is declared competitive and
2 prices move to a competitive level, we would expect
3 to see a complete range of packages of offerings
4 that go -- that run the gamut.

5 The only reason we see this gap in
6 services that competitors offer is because one
7 service, namely, low-use local exchange service,
8 its price is held by a regulatory constraint below
9 competitive market level.

10 Once it reaches a competitive market
11 level, why wouldn't someone want to serve them.
12 Sure, there are more profitable customers, but any
13 customer on whom you can make a positive profit is
14 worth having.

15 **Q.** So we're not there now, correct?

16 **A.** Well, I would have to speculate, as we say,
17 because I'm not positive exactly what Comcast is
18 offering, but we'll certainly be more there later
19 when local exchange prices come to -- closer to a
20 competitive market level.

21 MR. GOLDENBERG: I have no further questions.

22 MS. SATTER: I have a few question.

1 (Recess taken.)

2 JUDGE HILLIARD: Anytime you're ready.

3 CROSS-EXAMINATION

4 BY

5 MS. SATTER:

6 Q. Good morning, Dr. Taylor. My name is
7 Susan Satter. I represent the People of the state
8 of Illinois.

9 A. Good morning.

10 Q. I would like to ask you some questions on
11 your rebuttal testimony most exclusively.

12 I'd like to start on Page 6 and 7 where
13 you talk about critical share loss.

14 A. Yes.

15 Q. Now, you have a formula for critical share
16 loss on Page 6 and then you have an application of
17 that formula on Page 7 with various values; is that
18 correct?

19 A. Yes.

20 Q. Now, the values on Page 7, are those to
21 illustrate your point or are those actual values
22 based on any kind of study or company?

1 **A.** No, those are illustrations.

2 **Q.** So they're hypothetical; is that correct?

3 **A.** Yes.

4 **Q.** And they do not represent services that

5 would be offered by Illinois Bell Telephone

6 Company?

7 **A.** That's correct. I haven't done a study

8 which shows that.

9 I think I argue that for

10 telecommunications services which have a large

11 fraction of fixed costs, that suggests that the

12 numbers, 10 percent, 20 percent and 50 percent are

13 not irrelevant for our purpose, but I haven't done

14 a study to determine precisely what number pertains

15 to AT&T Illinois.

16 **Q.** Okay. And when I say Illinois Bell

17 Telephone, I mean the AT&T Illinois or

18 SBC/Illinois. I get confused about which one.

19 Somebody said Illinois Bell is just the simplest

20 since that's their legal name.

21 **A.** Sometimes I say Ameritech.

22 **Q.** You're dating yourself then.

1 Okay. Then I wanted to ask you the "L"
2 column on Page 7, Table 1, that is the loss that
3 would hypothetically result as a result of the
4 price increase that is on the increased column?

5 **A.** Almost, yes. Let's just go through a quick
6 example, if you like, to make sure we're talk --

7 **Q.** Well, I think it's simple. The "L" column
8 is the percentage loss of revenues; is that
9 correct?

10 **A.** Yes.

11 **Q.** Or is it a loss of customers?

12 **A.** It's share. So it's customers.

13 **Q.** It's customers.

14 **A.** But it's the percentage loss that makes a
15 price increase of the size in the first column
16 unprofitable. That's the key.

17 **Q.** Thank you.

18 And would that percentage be the
19 percentage of all customers taking that service?

20 **A.** Yes, it's just the business. It's, you
21 know, against which price and marginal cost in the
22 formula are applied.

1 **Q.** Okay.

2 **A.** The demand is probably a better way to say
3 it.

4 **Q.** So in determining this formula, you assume
5 that when the customer is gone, when -- to take the
6 first line, 2.2 percent of customers are gone, the
7 company receives no revenue?

8 **A.** No, it receives whatever the "P," the price
9 in the formula, times that volume of demand.
10 That's the amount of revenue less that it gets.

11 **Q.** If that customer goes -- stays with the
12 company, but takes a different service, would he
13 still show up in this column?

14 **A.** Oh, I don't know what shows up.
15 What that would show is that the service
16 revenue would decline. So that price change for
17 the service would not be profitable.

18 **Q.** Okay. So it's only -- so it's service
19 specific?

20 **A.** Yes, whatever pertains to little p in the
21 formula?

22 **Q.** If the customer stays with the company, but

1 goes to a different service, he would be counted as
2 a loss for the purposes of this analysis?

3 **A.** That's correct, because that price change
4 would be unprofitable from the perspective of the
5 individual service.

6 **Q.** Okay. But not necessarily from the
7 perspective of the company as a whole. That's
8 something that you have not included in this
9 analysis?

10 **A.** That's correct. That's not in this.

11 **Q.** Now, looking at this solely in terms of
12 service, the loss for a particular service, this
13 does not calculate the actual loss of customers,
14 does it?

15 **A.** No. As I said, it is the minimum loss of
16 volume of demand that makes the price increase
17 unprofitable.

18 **Q.** Now, the actual loss of customers would
19 depend on factors such as price elasticity of
20 demand; is that correct?

21 **A.** Yes.

22 **Q.** And we've discussed price elasticity of

1 demand -- or you've discussed price elasticity of
2 demand with Mr. Harvey earlier?

3 **A.** Correct.

4 **Q.** So there's market price elasticity of
5 demand and --

6 **A.** The firm-specific price elasticity of
7 demand, yes.

8 **Q.** Okay. So let me ask you, if the price
9 elasticity of demand is such that the loss, the
10 actual loss is less than the percentage in the L
11 column, then the price increase would -- could be
12 profitable, correct?

13 **A.** Yes.

14 **Q.** It would be profitable?

15 **A.** It would be, assuming we've captured all
16 the costs and all the revenues in this simple
17 formula, yes.

18 **Q.** Okay. And, conversely, if the price
19 elasticity is such that the loss is greater than
20 the L percentage, then the price increase would be
21 unprofitable?

22 **A.** Correct.

1 **Q.** And if the loss equals the L percentage,
2 there would be no gain, nor loss in profitability
3 as a result of this price change?

4 **A.** Correct.

5 **Q.** So these are for service-specific changes,
6 correct?

7 **A.** That's correct.

8 **Q.** And --

9 **A.** We're looking at the change in one price.
10 We're looking at the incremental cost of producing
11 that service.

12 **Q.** Now, in your testimony, you say that
13 essentially -- we see, essentially, nationwide
14 prices rather than prices that vary depending on
15 availability of competitive alternatives.

16 Is it --

17 **A.** Sounds familiar. Where are you?

18 **Q.** Page 11, Line 243.

19 **A.** Yes.

20 **Q.** Is it your opinion that the competitive
21 price level that you discuss in your testimony will
22 be determined by nationwide prices?

1 **A.** Well, the competitive price level for
2 residential access service, partly it will, because
3 some of the competitors that provide service in
4 that market, for example wireless carriers, do
5 price in -- generally in nationwide markets.

6 That doesn't mean that AT&T Illinois,
7 which, of course, doesn't serve Nevada, is going to
8 be looking at effects outside of its state. But,
9 remember, in a competitive market, it's -- it's not
10 that AT&T Illinois gets to set its price. It set
11 it -- it can charge a price that it likes, but that
12 price has to compete against the prices of other
13 competitors and some of those prices are set
14 nationwide.

15 **Q.** Okay.

16 **A.** Or at least don't vary from -- much from
17 state to state.

18 **Q.** So that you would agree that the -- a
19 nationwide -- strike that. Let me rephrase that.

20 You would agree that the competitive
21 price level for Illinois would be affected by
22 nationwide prices?

1 **A.** Yes.

2 **Q.** And that is true for wireline prices?

3 **A.** Yes, those are the ones I'm speaking of.

4 **Q.** Okay.

5 **A.** VOIP is the other big example. Those

6 aren't so typically -- stand-alone VOIP isn't so

7 typically in state-wide markets. You just go on

8 the web and sign up.

9 **Q.** Well, on Page 11, you also talked about

10 high-speed Internet connections. And I think you

11 said that about 33 percent of Illinois residents --

12 or Illinois households are connected to the

13 Internet by high-speed connections; is that

14 correct?

15 **A.** I think so. I think as of December 2004,

16 which is kind of a year out of date, there were

17 about 1 and a half million households.

18 **Q.** And do you remember whether the division

19 between cable modems and DSL in Illinois were equal

20 in 2000 -- as of the end of 2004?

21 **A.** I actually don't remember. It is in the

22 FCC report --

1 **Q.** Okay.

2 **A.** -- but I don't remember how it came out.

3 **Q.** So you don't remember whether it's 45

4 percent of the access lines for DSL -- of the high

5 speed-lines for DSL and 45 percent for cable?

6 **A.** I don't remember.

7 **Q.** Okay.

8 **A.** It's -- and I don't have -- I don't think I

9 have a copy of it with me, but it is easily

10 ascertainable.

11 **Q.** Okay. Now, you said that -- on Page 12,

12 that the Company must do what it can to make

13 wireline services attractive to high speed users.

14 You say that on Line 267?

15 **A.** Yes.

16 **Q.** And do you agree that for DSL users in

17 Illinois, AT&T Illinois requires subscribers to

18 take their wireline local service from AT&T

19 Illinois in order to purchase DSL?

20 **A.** Well, that's not exactly my understanding.

21 My understanding is as of today, that's

22 the case, but I believe there is a -- there was a

1 commitment in the AT&T/SBC merger that said there
2 should be -- there must be stand-alone DSL
3 provided.

4 So if we're looking forward here, as
5 economists always do, I would have to say that it
6 will be provided, but my understanding is it is not
7 provided stand-alone -- it, DSL, is not provided
8 stand-alone today.

9 **Q.** Okay. So as of today in order to purchase
10 DSL from AT&T Illinois, at least, you need to also
11 purchase local service from AT&T?

12 **A.** That's my understanding.

13 **Q.** And the FCC did require as a condition of
14 the merger between AT&T and SBC that stand-alone
15 DSL be available, correct?

16 **A.** That's also my understanding, yes.

17 **Q.** And the FCC did not set any price
18 constraints on that, did it?

19 **A.** Correct.

20 **Q.** And to date, that has not -- that
21 commitment has not been fulfilled?

22 **A.** As far as I know.

1 **Q.** Okay. On Page 15, Lines 357, you talk
2 about marginal customers.

3 And my question to you is, if the needs
4 of a typical customer are different than the needs
5 of the marginal customer, do you believe that the
6 needs of the marginal customer will set the price?

7 **A.** If we're talking about purchasing the same
8 service, yes. That is, if the typical customer --
9 if a typical customer buys one set of -- one amount
10 of usage, say, one amount of vertical services or
11 something like that and say that's small, and say
12 the typical customer's been an AT&T Illinois
13 customer since the divestiture and probably
14 wouldn't move, that's fine.

15 But what determines the price that AT&T
16 Illinois can charge is the customers that come and
17 go when the price changes, and it is their
18 characteristics and their preferences that will
19 determine the prices that the typical customer
20 pays.

21 The example I used somewhere in my
22 testimony is a person who doesn't shop very often,

1 namely, me, buying tomato -- canned tomatoes in a
2 grocery store. I got no idea what the price is,
3 but I know I'm safe buying it there because other
4 people do and they take care of that.

5 **Q.** So you're depending on the knowledge --

6 **A.** Kindness of others.

7 **Q.** The kindness of others.

8 You're also depending on the knowledge
9 of others?

10 **A.** And the incentives of others, that's
11 correct. That's what the competitive market does.

12 **Q.** And the competitive market effectively
13 relies on consumers having sufficient information
14 to make appropriate decisions; would you agree with
15 that?

16 **A.** Marginal customers -- enough customers know
17 what they're buying and know the prices to keep
18 the -- any change from market price unprofitable.

19 **Q.** And you said purchasing the same service.

20 Would you agree that that also applies
21 to customers purchasing the same group of services?

22 **A.** Sure.

1 **Q.** We have several figures, tables on
2 Pages 23, 24 and 25 of your rebuttal testimony.

3 **A.** Yes.

4 **Q.** And that's -- you don't have 2005 data on
5 here.

6 Now, these measure different things; is
7 that correct?

8 **A.** Yes.

9 **Q.** So Figure 1 measures calls per line?

10 **A.** That's correct.

11 **Q.** Figure 2 measures minutes of use?

12 **A.** Well, Figure 2 is wireless minutes of use
13 and average revenue per minute. Figure 1 is
14 wireline usage, in particular, AT&T Illinois usage.

15 **Q.** Okay. Now, are you also familiar with a
16 term "average revenue per user"?

17 **A.** Yes.

18 **Q.** And are you familiar with the average
19 revenue per user for wireless lines?

20 **A.** Yes. And I think, if memory serves, I have
21 a -- maybe I don't.

22 Yes, it's my understanding that average

1 expenditure per customer for wireless is growing
2 over time and for wireline is falling, and I
3 thought I had a diagram to that effect somewhere.

4 Q. Well, let me ask you this question:

5 In the tenth -- in the FCC's tenth
6 report on competitive market conditions --

7 A. Hm-hmm.

8 Q. -- with respect to commercial mobile
9 services, would you agree that there is a table
10 that includes average local monthly bill. And do
11 you have that? Page 8.

12 Just wanted to ask you if the average
13 local monthly bill reported by the FCC for wireless
14 is \$50.64.

15 A. I have pieces of that report here, but I
16 don't have that particular table.

17 MS. SATTER: If I may approach the witness, I
18 have the document.

19 JUDGE HILLIARD: Go ahead.

20 THE WITNESS: Looks right.

21 JUDGE HILLIARD: Let the record reflect that the
22 witness is shown a document, which I'd like you to

1 describe for the record, please.

2 MS. SATTER: This was -- this is Page 80 of the
3 FCC's tenth report in the matter of the
4 implementation of Section 6002-B of the Omnibus
5 Budget Reconciliation Act of 1993. It's the annual
6 report and analysis of competitive market
7 conditions with respect to commercial mobile
8 services.

9 JUDGE HILLIARD: Is there a date on that report?

10 MS. SATTER: September 30th, 2005. And I
11 believe this report is referenced in Mr. Wardin's
12 testimony and in other --

13 MS. SUNDERLAND: He referenced it.

14 MS. SATTER: Oh.

15 THE WITNESS: Yes.

16 MS. SATTER: Mr. Taylor -- Dr. Taylor also
17 referenced it throughout his testimony.

18 JUDGE HILLIARD: Is there a question pending
19 now?

20 BY MS. SATTER:

21 Q. The question was whether the FCC reported
22 the average local monthly bill for wireless to be

1 \$50.64 per month?

2 **A.** Yes, based on a CTIA survey.

3 **Q.** Now, in Figure 3 on Page 25, that shows

4 expenditures, and it shows wireless expenditures

5 going up and wireline expenditures decreasing; is

6 that correct?

7 **A.** Yes.

8 **Q.** Relative to each other, that is; correct?

9 **A.** Relative to each other and absolutely.

10 **Q.** The -- does this include -- first of all,

11 is this a national study?

12 **A.** Yes.

13 **Q.** And does it include all telecommunications,

14 wireline and wireless expenditures?

15 **A.** I believe it is a survey of customers. So

16 it includes whatever those customers purchased.

17 **Q.** So does it include business customers as

18 well as residential customers?

19 **A.** I don't think so, but let me check.

20 **Q.** And while you're checking, if you can

21 determine whether it includes voice and data

22 services.

1 **A.** Wireless expenditures include both voice
2 and data and it asserts total US wireline and
3 wireless service expenditures. So it doesn't
4 distinguish in the backup that I have between
5 residence and business.

6 **Q.** Okay. So based on that description, that
7 would include national expenditures for business,
8 residence voice and data?

9 **A.** Yes.

10 **Q.** And this chart goes out to 2008, correct?

11 **A.** Correct.

12 **Q.** And do you know how much, if any, of this
13 data is actual as opposed to projected?

14 I mean, clearly, the farther years are
15 projected.

16 **A.** Right. The source is a December 2004
17 report, which is based on -- so 2003 could
18 conceivably be actual. 2004 is unlikely to be
19 actual.

20 **Q.** So of the six years displayed here, one of
21 them is actual and the remaining five would be
22 projections?

1 **A.** That's my understanding, yes.

2 **Q.** Now, on Page 39 of your rebuttal testimony,

3 you show certain basic local prices for AT&T

4 Illinois' access and usage?

5 **A.** Yes.

6 **Q.** Now, you didn't include the volume

7 discounts on here, did you?

8 **A.** Volume discounts for?

9 **Q.** Usage.

10 **A.** That's correct. This is just taking

11 measured price per call at three cents.

12 **Q.** Are you aware that in the tariff for usage

13 prices, there are volume discounts included?

14 **A.** I believe there are packages which have

15 volume discounts, yes.

16 **Q.** Do you know whether the unbundled usage

17 price also has a volume discount associated with

18 it?

19 **A.** I'm not sure I do. The calculation here

20 simply assumes three cents a minute.

21 **Q.** Okay. So if there were a volume discount

22 in the tariff for unbundled access, you would agree

1 that that should be reflected in the price?

2 MS. SUNDERLAND: You mean unbundled usage?

3 MS. SATTER: Unbundled usage.

4 MS. SUNDERLAND: You said access.

5 MS. SATTER: Yeah.

6 THE WITNESS: For retail unbundled usage. We're

7 talking about retail service.

8 BY MS. SATTER:

9 **Q.** Retail residential unbundled usage.

10 **A.** Right. Sure. If there is no service, no

11 unbundled measured price per call, which for 200

12 calls costs three cents times 200, then this number

13 is overstated.

14 **Q.** Oh, would you accept subject to check that

15 the volume discounts begin at \$2.60?

16 **A.** I can check that subject -- I can take that

17 subject to check, sure.

18 **Q.** And would you accept subject to check that

19 at 100 calls as a result of the volume discount for

20 access areas -- excuse me for Bands A and B, the

21 call -- the charge would be \$2.74, I believe, as

22 opposed to \$3.00?

1 **A.** 2.74 as opposed to \$3.00. I can take that
2 subject to check.

3 **Q.** And for 200 calls, the charge would be
4 \$3.86, not \$6?

5 **A.** Again, subject to check.

6 **Q.** Okay. And then you would have to consider
7 that as the retail price, if in fact that is the
8 retail price pursuant to tariff?

9 **A.** Subject to check.

10 **Q.** Now, on Page 52, you talk about the LWC and
11 you talk about the development of a price for the
12 LWC. It starts at Lines 1180 and it goes through
13 the end of the page.

14 **A.** Yes.

15 **Q.** Now, you said that in determining --
16 basically, you said that the LWC price is somewhere
17 between the maximum that the CLEC will pay and the
18 minimum that AT&T would offer. It's somewhere in
19 that range?

20 **A.** Roughly speaking, yes.

21 **Q.** All right. Very roughly speaking.

22 And the minimum that AT&T would offer,

1 is that the reservation price?

2 **A.** Yes.

3 **Q.** And the reservation price has a couple of

4 considerations.

5 **A.** Sure.

6 **Q.** You said the first was the incremental cost

7 to provide the wholesale service. Would that be

8 the floor?

9 **A.** Depending on how you define incremental

10 cost, yes, the -- AT&T Illinois would never find it

11 profitable to sell the service at less than the

12 incremental cost of providing it, if you include

13 opportunity cost and sort of other elements,

14 nonstandard, nonTELRIC-type costs.

15 **Q.** Your second consideration was what you

16 called a trade-off between earning retail revenue

17 and serving a wholesale customer who's retaining

18 some revenue for loss of a customer?

19 **A.** Yes.

20 **Q.** Are opportunity costs similar to that?

21 **A.** Yes.

22 **Q.** So the opportunity cost would be part of

1 this trade-off calculation that AT&T might make?

2 **A.** Yes. That's fair.

3 **Q.** So the trade-off includes the amount -- or
4 considers -- let's put it this way: The trade-off
5 considers the amount of revenue that the company
6 would have to replace if it lost the retail
7 customer; is that right?

8 **A.** Well, I'm not sure I'd phrase it that way.
9 I mean, the alternatives aren't that simple.

10 The alternative is I provide LWC. I
11 lose the customer to a -- to a CLEC; but if I
12 charge a higher price, I may lose the customer to a
13 CLEC and the CLEC may have another alternative to
14 provide the service.

15 So it isn't simply I'm making \$10
16 hypothetically from that customer and, therefore, I
17 have to get as close to \$10 back as possible. May
18 not be able to get \$10 back.

19 **Q.** Okay. So to the extent that there are
20 other companies offering an LWC-type product, that
21 would provide a constraint on you as well?

22 **A.** Not only other companies, but also self

1 supply; that is, carriers can, according to the
2 FCC, provide their own switch.

3 **Q.** Now, this assumes that the party to the LWC
4 would take an Illinois Bell customer, a customer
5 that would otherwise be an Illinois Bell customer,
6 right?

7 **A.** Well, that's partly the calculation, yes.

8 I mean, there is some probability that a
9 CLEC using LWC will take customers from
10 Illinois Bell -- from AT&T Illinois, but also from
11 other CLECs, from other carriers.

12 **Q.** If a -- if the other party to the LWC only
13 served nonIllinois Bell retail customers, would the
14 company's incentives to participate in the
15 wholesale market be different?

16 Would your company's -- would AT&T's
17 incentives to enter into the LWC?

18 **A.** So we have a CLEC that markets exclusively
19 to customers that are not currently customers of
20 AT&T Illinois. That's your hypothetical?

21 **Q.** That's my hypothetical.

22 **A.** And, therefore, AT&T Illinois loses no

1 retail revenue when it provides service to such a
2 customer --

3 Q. Right. Right.

4 A. -- to such a CLEC.

5 If it could identify such CLECs, hold
6 them to the standards of your hypothetical, then,
7 yes, that opportunity -- the opportunity cost is
8 less than that when the CLEC is taking retail
9 customers away from AT&T Illinois.

10 As a practical matter, that's hardly an
11 enforceable contract.

12 Q. Right. I'm not asking you whether it's a
13 contract that anybody would enter into; but the
14 incentives would be very different, wouldn't they,
15 the incentives to enter into an LWC?

16 A. Well, the economics of what level of an LWC
17 price would be profitable would be different if you
18 could distinguish one -- a CLEC that had those
19 characteristics from an ordinary CLEC which was
20 competing for your customers just like most CLECs
21 do.

22 Q. So a company that has entered into --

1 strike that. Let me start over.

2 A customer that is taking service from a
3 company that has entered into an LWC is now
4 providing AT&T with money for that service,
5 correct?

6 A. Not directly, no.

7 Q. Not --

8 A. The customer pays its bill to the CLEC.
9 The CLEC then pays its bill to AT&T Illinois.

10 Q. So AT&T Illinois would receive some revenue
11 for that line even if the service were not taken
12 from AT&T by the retail customer?

13 A. Yes. Under the assumption that the
14 wholesale carrier -- that the carrier is buying
15 LWC.

16 Q. Now, in your critical share loss analysis,
17 those revenues were not factored in, were they?

18 A. No. That's correct.

19 The critical share loss ignores what is
20 effectively a shift from retail service -- a
21 customer being provided a retail service to a
22 customer being provided a wholesale service just as

1 it ignores the other services, toll, vertical
2 services, that work in the opposite direction.
3 That means it's more expensive to lose a retail
4 customer.

5 Q. Because those are higher margin services?

6 A. Because those are high margin services,
7 yes, it points some on both sides.

8 There's a reference in that testimony, I
9 think, to a paper by Professor Wiseman (phonetic).

10 Q. So the critical share loss analysis is a --
11 doesn't really address the question of the effect
12 of competition on the company as a whole?

13 A. Well, I think it does. I mean, it makes
14 the very simple point that we would all agree that
15 when you have a large amount of fixed costs, by and
16 large, it's very expensive for you to lose a
17 customer.

18 Now, yes, you lose a customer. There
19 are circumstances under which in the practical
20 world, you don't lose all the revenue from the
21 customer. He may come back as an LWC customer.

22 On the other side of it, you don't lose

1 just the revenue from basic exchange service. You
2 also lose the revenue from toll, from switched
3 access, from all the other things that go with the
4 line. Those are details.

5 The critical -- critical loss
6 calculation just looks at the basic question that
7 when there are fixed costs, it's expensive to lose
8 customers and I think that truth is still
9 important.

10 **Q.** But it is still limited to the one service.
11 It's not a company-wide analysis?

12 **A.** It doesn't purport to be, no.

13 **Q.** Okay. Okay. That was my question.

14 I also wanted to ask you a few questions
15 about market pricing elasticity of demand in
16 general.

17 **A.** Sure.

18 **Q.** When there is a small market price
19 elasticity of demand, does that mean that people
20 will pay the market price, whatever it is, rather
21 than not buy the product?

22 **A.** Roughly speaking, yes.

1 When the market demand elasticity is
2 high, if every provider of the service were to
3 raise its price significantly, there wouldn't be
4 much change in volume. Most people would still
5 simply pay the price.

6 MS. SATTER: I have no further questions.

7 Thank you very much.

8 THE WITNESS: Thank you.

9 JUDGE HILLIARD: I've got a couple.

10 EXAMINATION

11 BY

12 JUDGE HILLIARD:

13 **Q.** As a practical matter, can AT&T conduct its
14 own cost price elasticity studies?

15 **A.** They can in the same way that ordinary
16 firms in competitive markets do, that is, by
17 experimentation.

18 I think it's impossible to try to do
19 statistical studies, that is, based on historical
20 data. We recall the econometric studies looking at
21 changes in price over time and looking at changes
22 in volume.

1 Because the world is -- changes too
2 quickly, the customer's demands and the substitutes
3 they can substitute from have changed. It would be
4 almost impossible to hold those constant and
5 measure statistically what a cost-price elasticity
6 would be.

7 Drugstores don't do that. They simply
8 try to raise the price a little bit and see if it
9 it's more profitable. And they come to the same
10 answer and they've effectively answered the
11 question of what things are substitutes and what
12 things aren't.

13 **Q.** Are you aware of any studies being
14 conducted by other ILECs around the country in
15 that -- of that nature?

16 **A.** No. In my testimony, I cite one academic
17 study which looks at that, but I'm not aware of any
18 in any other ILEC.

19 **Q.** Okay. Would you agree that a major reason
20 you conclude that the LATA MSA-1 is the correct
21 market definition is the mass market nature of the
22 residential services at issue?

1 **A.** Yes.

2 **Q.** Have you discussed with your client the
3 issue of any possible disaggregation of pricing for
4 these services in the Chicago LATA or the MSA?

5 **A.** Not in an organized way, but, yes, I had
6 certainly raised the question: If you were to try
7 to price services, for example, at a wire center
8 level or something like that, would that be a
9 feasible thing to do, and nobody did a study, but
10 people looked aghast at the thought.

11 **Q.** Your client looked aghast at the thought?

12 **A.** Yes.

13 **Q.** So is it your understanding that no --
14 there is no data on another organization of a
15 pricing? Have you -- of the correct market?

16 They haven't done any other -- there's
17 no other analysis that you're aware of the point
18 you're presenting here?

19 **A.** I think Mr. Wardin raises some of those
20 issues in his testimony where the question wasn't
21 quite wire center by wire center, but it was, you
22 know, could the company distinguish between

1 customers that had broadband alternatives and those
2 that didn't or customers who were Comcast customers
3 and those that didn't.

4 And I think his testimony addresses the
5 fact that AT&T Illinois doesn't know what such
6 customers are; and even if it could, therefore,
7 couldn't discriminate between customers in those
8 circumstances.

9 **Q.** Would disaggregation impact your
10 conclusions about the appropriate market definition
11 in the LATA or the MSA?

12 **A.** Well, it depends on what you mean by
13 disaggregation.

14 I mean, it's my observation that
15 companies have not disaggregated at a wire center
16 level for competitive services that they provide
17 where they would have the authority to do so.

18 **Q.** You're talking about ILECs or CLECs or
19 competitors?

20 **A.** Everybody. I'm talking about everyone.
21 I'm looking at long distance carriers, for example;
22 CLECs possibly.

1 You don't tend to see wire center by
2 wire center pricing, particularly, for mass market
3 services. I mean, how can you kind of advertise,
4 Come to me, 20 bucks a month when it's 18 if you
5 live here and it's 26 if you live there.

6 **Q.** Well, I think it is more of an (inaudible)
7 either that they -- quite often, marketing is
8 general, but the availability is perhaps wire
9 center specific?

10 **A.** Oh, it's certainly the case that some CLECs
11 provide service in certain wire centers. And I
12 think there Mr. Wardin's testimony has sort of the
13 list of what CLECs provide service at which wire
14 centers. And it is certainly not the case that
15 most see CLECs provide service everywhere.

16 There are some very attractive wire
17 centers that attract a great deal of competition.

18 Also, one of the big CLECs in the case
19 is -- in the LATA, is Comcast and it provides
20 service basically where its video network is.

21 **Q.** I'm not -- in regard to Comcast, I live in
22 the city and I know that I was a Comcast customer

1 and I cannot get Comcast telephone service.

2 And as far as I can tell, plugging in
3 things in the -- on the Internet, at least ten
4 different zip codes. So I couldn't get any Comcast
5 telephone service within the City of Chicago.

6 Information like that, if it were
7 city-wide, impact your conclusions?

8 **A.** Well, it surprises me. I mean, I think I
9 have data in my testimony on the fraction of
10 Comcast lines that are or shortly will be
11 telephone -- telephony equipped and my
12 understanding was that it was quite large.

13 **Q.** But that's not answering my question.

14 **A.** It would surprise me, yes.

15 **Q.** And would it change your conclusions at
16 all?

17 **A.** If it were the case that Comcast
18 customers -- a large fraction of Comcast customers
19 throughout the MSA can't buy telephone service from
20 Comcast and would not be able to in the near
21 future, then that would remove a large CLEC from --
22 from everybody's calculation.

1 **Q.** And in the -- the data supplied by the CUB
2 witness, they note that there are -- within the
3 various exchanges, there are, I think, 14 that
4 are -- according to their information, there are no
5 CLECs, and there's another group that is only one
6 CLEC.

7 Is there a tipping point in an analysis
8 like yours wherein if you get to a certain
9 percentage of the market which doesn't have these
10 other avenues, your conclusions change?

11 **A.** Certainly, but the -- it doesn't look at
12 the number of wire centers where there are small
13 numbers of access lines and small numbers of CLECs
14 because, in my view of what the geographic market
15 is, the fact that there are many CLECs in some
16 large wire centers means that there's competition
17 for price for those services. And customers in the
18 wire centers where there aren't many alternatives
19 pay the same price as customers in the wire centers
20 where there are alternatives.

21 JUDGE HILLIARD: Okay. I think that's all I
22 have.

1 Thank you.

2 Anybody else?

3 Do you have more redirect?

4 MS. SUNDERLAND: Could we have just one minute?

5 JUDGE HILLIARD: Sure.

6 (Discussion off the record.)

7 MS. SUNDERLAND: Should I go ahead?

8 JUDGE HILLIARD: Yeah, please.

9 REDIRECT EXAMINATION

10 BY

11 MS. SUNDERLAND:

12 **Q.** Mr. Goldenberg asked you some questions

13 about VOIP and cable.

14 With respect to VOIP, he posited a

15 low-income person who could not afford a broadband

16 connection and asked you whether VOIP would be a

17 realistic alternative for that person. You said

18 no.

19 Would there be other realistic

20 alternatives for that person?

21 **A.** Sure. I mean, what matters for declaring

22 something competitive is not that every technology

1 that is out there is available to every customer.
2 It's just that a customer -- the marginal customer
3 has a choice.

4 So if you look at, for example, the
5 prepaid wireless, low-priced, low volume offerings,
6 some of those are attractive or would be attractive
7 to a low-volume wireline customer.

8 **Q.** Mr. Goldenberg also asked you about e911
9 capabilities for cable systems. What is your
10 understanding about cable e911 capabilities versus
11 AT&T Illinois'?

12 **A.** My understanding is that at least today,
13 the analog or nonVOIP cable service that Comcast
14 offers is essentially the same as far as e911
15 service is; that is, it has battery backup. It's
16 got location specific. It's the old AT&T broadband
17 network, the old, old AT&T broadband network that
18 Comcast owns and that it's essentially identical,
19 as I understand it, to that which AT&T Illinois
20 provides.

21 **Q.** One other question that Ms. Satter asked
22 you about the chart on Page 7 of your rebuttal

1 testimony. She asked you whether the losses in
2 those three "L" columns could be less if, in fact,
3 the elasticity was low.

4 **A.** Yes.

5 **Q.** Would the -- would that elasticity be a
6 market elasticity or a firm elasticity to affect
7 these percentages?

8 **A.** The relevant elasticity here is the
9 firm-specific elasticity; that is, what happens
10 when AT&T Illinois changes its price, that's it.
11 Not that everyone changes their price. This is
12 actually measuring the substitution that goes to
13 other carriers, not people who are dropping off the
14 network or stopping telephone service entirely.

15 MS. SUNDERLAND: I have no further questions.

16 JUDGE HILLIARD: Any recross?

17 MR. HARVEY: Nothing from Staff.

18 MS. SATTER: I need to think about the firm
19 elasticity of demand versus the market elasticity
20 of demand.

21

22

1 RECROSS-EXAMINATION

2 BY

3 MS. SATTER:

4 **Q.** When you say firm elasticity of demand, you

5 mean --

6 JUDGE HILLIARD: Company by company.

7 BY MS. SATTER:

8 **Q.** Company -- the firm doesn't mean stable.

9 It means the company.

10 **A.** Correct. Sorry.

11 **Q.** Okay. Okay. So if -- so you're only

12 looking at the company's elasticity of demand?

13 **A.** That's what's relevant for this

14 calculation, yes.

15 **Q.** So that is what would be lost to your

16 particular company?

17 **A.** Correct.

18 **Q.** Not what would be lost to the market as a

19 whole?

20 **A.** Correct.

21 MS. SATTER: Okay. Thank you.

22 JUDGE HILLIARD: Any further recross?

1 MR. GOLDENBERG: No.

2 JUDGE HILLIARD: Mr. Ward?

3 MR. WARD: Yeah, I thought of something to say
4 to Dr. Taylor.

5 MS. SUNDERLAND: No. Since he didn't cross the
6 first time, he doesn't get to do recross.

7 JUDGE HILLIARD: Well, you can pass your
8 question off to one of the people who can.

9 MR. WARD: I can give it to Louise. She'd ask
10 it for me I'm sure.

11 MS. SUNDERLAND: I don't think so.

12 CROSS-EXAMINATION

13 BY

14 MR. WARD:

15 Q. Dr. Taylor, you just indicated --

16 MS. SUNDERLAND: Excuse me. I'm objecting to
17 his being allowed to do recross when he didn't do
18 cross. This is inappropriate.

19 JUDGE HILLIARD: I don't know that it is. He's
20 responding to your redirect, I presume.

21 MR. WARD: Absolutely. I'm responding to the
22 scope of redirect.

1 JUDGE HILLIARD: I think that as long as his
2 question is responsive to your question, he can ask
3 it.

4 MR. WARD: I'm not -- it's not something I
5 forgot.

6 BY MR. WARD:

7 Q. Dr. Taylor, you had indicated regarding
8 low-income consumers that -- availability of
9 prepaid cellular service?

10 A. Yes.

11 Q. Do you know what the price per minute of
12 use is for that type of service?

13 A. Moderately high. It depends on how many
14 minutes they use. Ranges from 10, 30 cents a
15 minute.

16 Q. And that's higher than AT&T's current base
17 wireline services?

18 A. Price per minute?

19 Q. Price per minute.

20 A. Yes.

21 Q. And you had also indicated on redirect
22 regarding Comcast telephone service?

1 **A.** Yes.

2 **Q.** And you -- as I understand it, you're
3 talking about Comcast service that is nonbroadband
4 based or nonIP telephony?

5 **A.** NonIP, yes.

6 **Q.** Isn't it true that Comcast is no longer
7 developing putting out facilities for that type of
8 service in Illinois?

9 **A.** My understanding -- I believe that's
10 correct. My understanding is that for new service,
11 that they're migrating -- they are developing or
12 using an IP-based system. And I think everyone
13 expects some day, because it's a better technology,
14 that all customers will be migrating to IP-based.

15 **Q.** And the nonIP-based Comcast service, that
16 was facilities that they had inherited when they
17 took over the AT&T cable system; is that correct?

18 **A.** Well, purchased. Right.

19 MR. WARD: Purchased. Yes. Thank you.

20 No further questions.

21 JUDGE HILLIARD: Redirect? Rerredirect?

22 MS. SUNDERLAND: No.

1 JUDGE HILLIARD: Thank you, Mr. Taylor.

2 THE WITNESS: Thank you.

3 JUDGE HILLIARD: Dr. Taylor.

4 What's our schedule for the rest of the

5 day?

6 MS. SATTER: We have three more witnesses.

7 Mr. Shooshan, Mr. Weber and Ms. Moore.

8 MR. ANDERSON: I believe the order we agreed on

9 was Mr. Weber would go next followed by Mr.

10 Shooshan and then Ms. Moore.

11 JUDGE HILLIARD: And what kind of a quitting

12 time -- are we going to get through by 5:00 with

13 those three people?

14 Can we take an hour off?

15 MR. HARVEY: Staff has no question for any of

16 the remaining witnesses today. Might be a good

17 idea to poll the parties what we do have.

18 JUDGE HILLIARD: How much cross do you have for

19 those three witnesses?

20 MS. SATTER: Of these three witnesses? Maybe an

21 hour and a half total.

22 MS. SODERNA: I don't think CUB has any

1 questions.

2 JUDGE HILLIARD: Mr. Goldenberg?

3 MR. GOLDENBERG: I just have Shooshan at this

4 point, probably 15 or 20 minutes. Sorry.

5 JUDGE HILLIARD: So it sounds like we can do

6 this all in two hours.

7 MR. SATTER: That would be wonderful.

8 JUDGE HILLIARD: All right. Then you want to

9 come back -- let's start again at 1:30 sharp. All

10 right?

11 MR. GOLDENBERG: Thank you.

12 (Whereupon, a luncheon

13 recess was taken to resume

14 at 1:30 p.m.)

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1 ***** AFTERNOON SESSION *****

2 MS. SUNDERLAND: I would like to move for the
3 admission of AT&T Illinois Exhibit 3.0 and 3 .1
4 which is the direct and rebuttal testimony
5 Dr. William Taylor respectively.

6 JUDGE HILLIARD: Any objection?

7 (No response.)

8 Hearing, no objection, they will be
9 admitted.

10 (Whereupon, AT&T Exhibit No. 3.0,
11 3.1 Wwere admitted into evidence.)

12 MR. WARD: Can we go off the record.

13 JUDGE HILLIARD: Sure.

14 (Whereupon, a discussion was had off the record.)

15 MR. ANDERSON: The next order of business would
16 be to call our next witness Mr. Joseph Weber, and I
17 don't believe he's been sworn in.

18 Before we proceed with Mr. Weber's
19 testimony, I wanted to make a couple of things --
20 note a couple of things.

21 First of all, Mr. Weber had a Schedule
22 JHW-RI, which was a copy of his resume. That

1 schedule was updated, and I have distributed a
2 revised Schedule JHW-R1. And we will later today or
3 tomorrow be re-e-docketing that revised schedule.

4 Also, I wanted to note there were two
5 corrections that need to be noted to Mr. Weber's
6 rebuttal testimony as it was circulated originally.

7 These are minor corrections. I'll note
8 them for the record now. And then I will also be
9 filing revised rebuttal testimony it.

10 The first correction is on Page 9, line
11 171. There's a reference to the date of the
12 triennial review remand order. It should be
13 February 4, 2005 rather than 2006.

14 JUDGE HILLIARD: Okay.

15 MR. ANDERSON: And then the second change is on
16 Page 19, line 351 at the end of that line the word
17 "few" should be changed to "small." Those are the
18 only two corrections to the previously circulated
19 testimony. And as indicated, we will be filing the
20 revised version of that reflecting those
21 corrections on e-docket.

22 JUDGE HILLIARD: Okay.

1 (Witness sworn.)

2 JOSEPH H. WEBER,

3 called as a witness herein, having been first duly
4 sworn, was examined and testified as follows:

5 EXAMINATION

6 BY

7 MR. ANDERSON:

8 Q. Would you please state your full name and
9 business address for the record.

10 A. My name is Joseph H. Weber. My address is
11 Post Office Box 224, Convent Station, New Jersey
12 07961.

13 MR. ANDERSON: Before making Mr. Weber available
14 for cross-examination, I would like to first move
15 for the admission into evidence of AT&T Illinois
16 Exhibit 10.0, as it will be revised on e-docket.

17 JUDGE HILLIARD: Is there any objection?

18 MR. WARD: I have a motion to strike one
19 question and answer and I could do it now or I
20 could do it during the cross.

21 JUDGE HILLIARD: You have a motion to strike all
22 of his testimony or one question?

1 MR. WARD: One question and answer.

2 JUDGE HILLIARD: Okay. I guess we could do it
3 now.

4 MR. WARD: On Page 18, line 345 through
5 Page 19, 352, Mr. Weber is asked if Mr. Segal
6 considered, considered any of the approaches that
7 Mr. Weber outlines in his testimony and the answer
8 is apparently not and he goes on from there.

9 Mr. Weber has no foundation in his
10 testimony as to whether Mr. Segal investigated any
11 of the matters that he talks about in that answer.
12 That's pure speculation.

13 I move to strike it on the basis that he
14 has no personal knowledge to respond to that
15 question, the answer that he's providing. It's a
16 speculative answer that doesn't belong in the
17 record.

18 MR. ANDERSON: It's clear from the context of
19 the question and answer that what Mr. Weber -- the
20 question Mr. Weber is being asked is whether
21 Mr. Segal's testimony reflects any consideration of
22 those approaches.

1 And Mr. Weber explains in his testimony
2 that based on the absence of the discussion of the
3 DLC arrangement of the type that Mr. Weber has
4 discussed in his testimony, that that apparently
5 was not addressed in Mr. Segal's testimony. That's
6 the purpose of that testimony.

7 Mr. Segal also discusses a concern with
8 the need to collocate and the cost of collocation.

9 Again, this is directly responsive to
10 Mr. Segal's testimony in that regard insofar as
11 Mr. Weber is pointing out that it's not necessary
12 to collocate in all central offices. There are
13 alternatives to collocation in every office.

14 So this is all directly responsive to
15 the testimony of Mr. Segal. I believe that the
16 motion is not warranted.

17 MR. WARD: I have two points in reply.

18 That AT&T's position doesn't require
19 that should Mr. Segal testify about the approaches
20 he outlines in his testimony, not that he
21 considered.

22 Secondly, if your Honor wants to reserve

1 ruling, I have foundations that I could go into on
2 that Q and A to show that it is not well-founded in
3 anyway based on testimony Mr. Segal has prefiled
4 before the Commission. I'll establish a foundation
5 if you wish me to under that.

6 JUDGE HILLIARD: One alternative is to reserve
7 ruling until which time you present Mr. Segal?

8 MR. WARD: No, as of the time I finish the
9 cross-examination.

10 JUDGE HILLIARD: Let's do that then.

11 MR. WARD: Okay.

12 CROSS EXAMINATION

13 BY

14 MR. WARD:

15 Q. Hello, Mr. Weber. My name is Michael Ward.
16 I represent DataNet Systems and TruCom.

17 Sorry to get started off on the foot of
18 striking your testimony.

19 A. Can you speak up a little bit.

20 Q. My wife tells me I mumble. So if you don't
21 understand any of my questions, just ask me to
22 repeat it.

1 Directing your attention to your
2 prefiled testimony on Page 4, where you discuss the
3 use of DLC system in collocation space. This would
4 be approximately line 65.

5 **A.** Yes.

6 **Q.** To import facilities that you discuss
7 there, it would be required for the CLEC to
8 actually then have collocation space in each end
9 office where it is installing that equipment?

10 **A.** Yes, and when you use this arrangement, you
11 would need to collocate in those offices, that's
12 correct.

13 **Q.** As I understand your testimony, there's
14 approximately 150 AT&T end offices in MSA-1?

15 **A.** Yes. But I do give -- in other parts of
16 this testimony, I discuss other alternatives. This
17 particular section is discussing this particular
18 alternative, which does require collocation. It is
19 not necessary that this particular configuration be
20 used in every central office in the area.

21 **Q.** Where this configuration is used, it
22 requires the CLEC to have collocation space

1 purchased and the DLC equipment and have it
2 installed there?

3 **A.** That's what this configuration consists of,
4 yes.

5 **Q.** Also on that page, you make reference, line
6 69 through 70 and thereafter, about transmission
7 facilities can be unbundled, intraoffice facilities
8 or special access facilities leased from the ILEC,
9 which would be in this case AT&T, correct?

10 **A.** That's correct.

11 **Q.** What is the difference between an unbundled
12 intraoffice facility and special access?

13 **A.** Price.

14 **Q.** What difference is there in the facilities
15 itself?

16 **A.** None.

17 **Q.** And so it's just how much AT&T charges the
18 CLEC to use one service versus the other?

19 **A.** Yeah, unbundled network elements, of
20 course, are provided at rate base prices.

21 On some routes, according to the TRO,
22 intraoffice facilities are not considered impaired,

1 and, therefore, AT&T is not required to offer
2 unbundled facilities. And in those situations,
3 special excess facilities could be used. But it's
4 the same physical piece of equipment.

5 Q. Do you know what the price difference is
6 between unbundled facilities and special access?

7 A. No, I do not.

8 Q. Do you know which one is more expensive?

9 A. I think in most cases special access is.

10 Q. Do you know what the ratio is in price
11 between the two?

12 A. I just said I didn't.

13 Q. Turning to the next page, Page 5, you
14 referred to a CLEC called Talk America at the top
15 of that page. You refer to that as its own network
16 facilities in Southeast Ohio and Michigan.

17 Isn't it true that Talk America acquired
18 a facilities-based carrier in Ohio and Michigan to
19 initiate its facilities there?

20 A. I'm sorry?

21 Q. Isn't it true that Talk America acquired a
22 facilities-based CLEC in Ohio and Michigan to

1 implement its own facilities?

2 **A.** I think that's right. I think that's
3 right.

4 **Q.** And isn't it true that Talk America has not
5 built facilities in Illinois?

6 **A.** That's my understanding as of this time.

7 **Q.** Isn't it true that Talk America at this
8 time has no plan to build facilities in Illinois?

9 **A.** I don't know that.

10 **Q.** You are not familiar with Talk America's
11 most recent quarterly report to investors?

12 **A.** Well, I have seen their 10K Report. And I
13 didn't think there was any explicit statement made
14 about their plans to -- their expansion plans.

15 **Q.** If you could please turn to Page 6 of your
16 testimony, on line 105, you refer to remote
17 concentrator such as a DLC remote terminal.

18 Could you please explain what is a
19 remote terminal.

20 **A.** Yes. DLC equipment is, basically, it's
21 equipment which concentrates subscriber lines and
22 brings them back to a switching center at some

1 central location. It has a transmission line and
2 two pieces of equipment, one on each end.

3 The piece of equipment on the subscriber
4 line, that is referred to as the remote terminal.

5 Q. And at the bottom of that page in the
6 footnote you makes reference or response to
7 Dr. Selwyn regarding McLeod's bankruptcy
8 proceedings?

9 A. Yes.

10 Q. You indicate that they come out of Chapter
11 11 bankruptcy?

12 A. That's correct.

13 Q. This is not the first time McLeod has
14 bankruptcy proceedings, is it?

15 A. I didn't know that, but I gather Dr. Selwyn
16 testified to that effect.

17 Q. Please turn to Page 7.

18 On page -- I'm sorry. Line 119.

19 You refer to inexpensive transmission
20 facilities such as intraoffice UNEs?

21 A. That's correct.

22 Q. These are the intraoffice transmission

1 facilities you mentioned earlier between that and
2 special access?

3 **A.** The unbundled network elements, yes.

4 **Q.** And under the FCC's triennial review remand
5 order, AT&T has a reduced obligation to provide
6 these intraoffice UNEs; is that correct?

7 **A.** The only place where it does not have the
8 obligation to provide those intraoffice UNEs is in
9 places where there are competitive alternatives
10 available.

11 So in those situations other options
12 would normally be available to the CLEC.

13 **Q.** And what service does AT&T then provide
14 CLECS for transmission in those offices?

15 **A.** Well, you know, they will offer -- they
16 offer special access facilities everywhere.

17 But what the CLEC will in those cases
18 ordinarily have an option of either buying AT&T's
19 special access facilities or facilities provided by
20 some third party.

21 **Q.** If you could look further down the Page at
22 line 130 at Enhanced Extended Link EELs.

1 Do you see an EEL cost more than the UNE
2 price of a loop?

3 **A.** Well, an EEL is a combination of a loop, a
4 multiplexer and intraoffice facility. So the price
5 of the EEL is the sum of those three things.

6 **Q.** So for a CLEC to serve a single line
7 end-user through a loop would be less expensive
8 than trying to serve a single line end-user in a
9 remote central office through an EEL; is that
10 correct?

11 **A.** Say that again please.

12 **Q.** Okay. If a CLEC attempted to service a
13 single line end-user?

14 **A.** Yeah.

15 **Q.** And that end-user was out of the central
16 office the CLEC was located in, they could serve
17 them through a loop, correct?

18 **A.** You are talking about serving a CLEC that
19 only has one customer in a central office?

20 **Q.** I'm just identifying a single customer, the
21 cost of providing service to a single customer?

22 **A.** Yes. As I point out in several places

1 here, it can serve that single customer in many
2 ways. It could serve it with an EEL. If there are
3 enough of them, it can serve them with the digital
4 line carrier system. It depends on how many
5 customers it has and what the business situation
6 is.

7 **Q.** Well, the EEL serves as a loop as an
8 effective way of getting the loop to the CLEC; does
9 it not?

10 **A.** Yeah, it's essentially an extended loop.
11 It's most appropriate in those places where the
12 CLEC has a very small number of customers, and so
13 it's a means of extending the loop from the
14 customer's premises all the way over to the CLEC
15 switch.

16 **Q.** So, therefore, for a CLEC to reach a
17 central office where it is not collocated to reach
18 customers out of that central office? It is a
19 means of doing that?

20 **A.** Yes, that's right. It's a means for
21 reaching a customer who is served by a central
22 office where the CLEC chooses not collocate.

1 **Q.** And where the CLEC is collocated, they can
2 reach their customers out of that central office by
3 simply picking up that loop to its equipment that
4 is collocated at the central office?

5 **A.** That's correct.

6 **Q.** And in the first of those two
7 circumstances, the cost of bringing a customer into
8 that central office through an EEL versus the cost
9 of bringing a customer into that central office
10 through a loop, the EEL would be more expensive?

11 **A.** Well, it's a trade off.

12 It's generally more expensive. If
13 there's a substantial number of lines, it's more
14 expensive because the digital loop carrier systems
15 allow a concentration of four to one or more on the
16 intraoffice facilities. And the EEL does not have
17 that capability.

18 **Q.** The EEL also has additional cost
19 components, doesn't it? It would require the cost
20 of the end-user's loop in the remote central office
21 plus the multiplexor plus the intraoffice facility?

22 **A.** Well, it requires the multiplexor in the

1 intraoffice facility. The loop is required no
2 matter how you do it.

3 Q. Okay. So this actually adds to the
4 elements of cost to serving that customer?

5 A. Well, yeah, it replaces them.

6 I mean, if you use it -- it depends on
7 what you are comparing it with. If you are
8 comparing with the digital loop carrier system, it
9 requires a multiplexor and a dedicated channel
10 across the network, as opposed to having the
11 digital line carrier equipment and a fewer lines
12 across the central, across the network.

13 Q. As I understand it, the total cost then for
14 the EEL would be greater than the cost of serving a
15 single loop out of the central office for the
16 digital line carrier equipment?

17 A. Yes, I think in general that's true.

18 Q. If you turn to Page 8 at the bottom of
19 Page 8, lines 154 and after you indicate that CLECs
20 are collocated in 66 percent of the wire centers in
21 the Chicago LATA which terminate 90 percent of AT&T
22 residential access lines.

1 Do you see that?

2 **A.** Yes.

3 **Q.** Do you know how many of the AT&T

4 residential access lines are served by collocated

5 CLECs?

6 **A.** No.

7 **Q.** Moving onto Page 10 up at the top of the

8 page. You make references to hot cuts?

9 **A.** Yes.

10 **Q.** Do you see that?

11 **A.** Yes.

12 **Q.** You state that the cost for a hot cut is

13 approximately \$25, those are the batch hot cuts and

14 \$30 for an individual line?

15 **A.** Yes.

16 **Q.** Where do you get those rates from?

17 **A.** I got them from AT&T's hot cut rate sheet.

18 They published that.

19 **Q.** Is that the entire cost of a hot cut that

20 AT&T charges a CLEC? Are there any additional cost

21 elements?

22 **A.** As far as I know, those are the only costs

1 that AT&T charges in association with the hot cut.

2 **Q.** That would be the total charge from AT&T
3 for a CLEC that ordered a hot cut to UNE-L
4 facility?

5 **MR. ANDERSON:** Is your question referring to
6 batch hot cuts?

7 **MR. WARD:** I will take them individual, if the
8 answer is different.

9 **THE WITNESS:** I'm not sure I understand your
10 question.

11 **BY MR. WARD:**

12 **Q.** Let's take the batch hot cut. You
13 indicated the average is \$25 a line for batch hot
14 cut?

15 **A.** Yes.

16 **Q.** Is it your understanding that that is the
17 entire charge that AT&T would charge a CLEC for hot
18 cutting a line to an UNE-L facility?

19 **A.** That's my understanding of the way the hot
20 cut process works, yes.

21 **Q.** And the \$30 for any individual line your
22 answer would be the same?

1 **A.** Yes.

2 **Q.** For the entire charge?

3 **A.** That's my understanding.

4 **Q.** The bottom of that page, you talk about the

5 cost of routing traffic through a tandem?

6 **A.** Auh-huh.

7 **Q.** Then it goes onto the next page.

8 You indicate that on the next page, line

9 200, a large fraction of AT&T's internal traffic is

10 routed through tandems, correct?

11 **A.** That's correct.

12 **Q.** What do you mean by "internal traffic"?

13 **A.** Well, traffic between AT&T customers, from

14 one AT&T customer to another.

15 **Q.** So this is AT&T movement of traffic of its

16 own customers? Is that what you are referring to?

17 **A.** What I'm talking about is AT&T's traffic;

18 going from AT&T customers to AT&T customers.

19 **Q.** Do you know what percentage of AT&T's

20 internal traffic goes through the tandem?

21 **A.** No, I don't.

22 **Q.** Do you have a ballpark estimate of what

1 percentage?

2 **A.** Yeah, I would think it's probably -- it's a
3 guess. I would think in the vicinity of
4 30 percent.

5 JUDGE HILLIARD: What is a tandem?

6 THE WITNESS: Excuse me?

7 JUDGE HILLIARD: What is a tandem?

8 THE WITNESS: A tandem switch is a switch which
9 allows end-office switches to interconnect with
10 each other. So it's a way of concentrating traffic
11 between end-office switches.

12 If I have two end-office switches which
13 don't have a large commutative interest between
14 them, then the way I would interconnect those
15 switches is to do it via an intermediate switch,
16 which is called a tandem.

17 JUDGE HILLIARD: Okay.

18 BY MR. WARD:

19 **Q.** There are basically two means by which AT&T
20 moves its traffic between end offices.

21 One is either direct; it goes from the
22 originating office directly to the terminating end

1 office, correct?

2 **A.** That's correct.

3 **Q.** And the other one would be a tandem, which
4 is kind of like the hub of spokes on a wheel, and
5 since all the end offices in that area are
6 connected by the tandem, you can reach any end
7 office by going through it; is that correct?

8 **A.** That's correct.

9 **Q.** Now, down towards the bottom of Page 11,
10 you talk -- on line 213, you talk about the optimal
11 arrangement for a CLEC is to use one or a small
12 number of centrally located switches and extend the
13 access facilities to remote central offices.

14 Do you see that?

15 **A.** Yes.

16 **Q.** How is it that the CLEC would extend out to
17 the central office in that scenario?

18 **A.** It's the way I described it with the DLCs,
19 yes.

20 **Q.** Going up to the top of the next page, very
21 top line 220, you refer to the number of end
22 offices, remote switches and tandem offices?

1 JUDGE HILLIARD: Which page?

2 MR. WARD: Page 12, line 220.

3 THE WITNESS: Yes.

4 BY MR. WARD:

5 Q. How many customer lines for AT&T, its own
6 customers, do they serve through these end offices
7 for remote switches and tandem offices?

8 A. How many access lines do they serve?

9 Q. Yes, for AT&T's own customers.

10 A. I don't have that.

11 Q. Do you have a ballpark estimate of the size
12 of that, AT&T lines?

13 A. I thought it was somewhere around 5 or 7
14 million, but I'm not sure.

15 Q. And as I understand your testimony, routing
16 traffic between offices directly is a less
17 expensive, more efficient means than routing it
18 through a tandem?

19 A. Well, if the volumes are sufficiently high,
20 yeah. For those offices with large communities of
21 interest, that's sufficiently high.

22 Q. Where the volumes of lines justify, it's a

1 more effective means of routing?

2 **A.** Well, it's the traffic between the offices.
3 It's a question of the -- large trunk groups are
4 more efficient than small trunk groups.

5 So if you have a lot of traffic, you
6 have a large trunk group. It gets to be
7 sufficient. If have you a small amount of traffic,
8 then you have smaller trunk groups and it's less
9 sufficient. And at some point, it's becomes more
10 economical to route traffic through a tandem.

11 **Q.** If you turn to Page 13, your figure at the
12 bottom of the page. You identify four different
13 types of network connections.

14 Do you see that?

15 **A.** Yes.

16 **Q.** And your 2.3 Direct Connection, that was
17 the one that we just discussed about the direct
18 connection where you have enough volume, traffic is
19 more efficient?

20 **A.** Right.

21 **Q.** And the 2.4, the Intraoffice Connection,
22 that's where the call never leaves the originating

1 switch?

2 **A.** That's correct.

3 **Q.** For a CLEC using its own facilities
4 effectively, all of their calls will have to leave
5 the originating intraoffice to go to the CLEC
6 switch; is that correct?

7 **A.** That's correct.

8 **Q.** So in that configuration for a CLEC, it
9 would never have the efficiency of an intraoffice
10 connection in that hypothetical?

11 **A.** That's correct. I believe I said that in
12 my testimony.

13 **Q.** So both of the examples in 2.3 and 2.4
14 would be more cost-efficient than the connections
15 in 2.1, the CLEC network connection?

16 **A.** You know, on 2.3, I think it's the
17 difference, the cost difference, is probably
18 marginal because the transmission cost to go across
19 the network is about the same.

20 **Q.** Do you know what percentage of AT&T traffic
21 goes with the configuration of 2.3, the Direct
22 Connection?

1 **A.** No, but I think it's -- no, I don't think
2 so. But I think that 2.4 is probably very small in
3 a place like Chicago.

4 **Q.** But you earlier estimated that 2.2 is about
5 30 percent?

6 **A.** That was a guess. I would say if that's
7 true, then I would think that the other is
8 probably, you know, maybe as much as 60.

9 I don't know. I don't really know those
10 numbers. Maybe I shouldn't have made that guess.
11 But in other jurisdictions that I have seen, that
12 has been the kind of number that it's had. I
13 really don't know what the case is in Illinois.

14 **Q.** Let me ask the question this way: Would
15 2.2, 2.3 and 2.4 collectively be effectively
16 100 percent of AT&T local traffic?

17 **A.** Yes, it should be, the local traffic, yes.

18 **Q.** Going to Page 14, line 271 you reference
19 the DLC equipment.

20 **A.** Auh-huh.

21 **Q.** And in this situation, the CLEC would
22 install DLC equipment collocated at the AT&T end

1 office, correct?

2 **A.** Yes, that's correct.

3 **Q.** And then that would be routed back to the
4 CLEC's switch?

5 **A.** Yes.

6 **Q.** Now, for AT&T routing of its own traffic,
7 it does not incur the expense of a DLC, or does it?

8 **A.** No, it incurs the expense of the switch.

9 **Q.** So the CLEC would have the cost of the DLC
10 and the cost of the switch and then AT&T would have
11 the cost of the switch?

12 **A.** Well, you know, AT&T has the central office
13 there, and they have a switch there, and they
14 terminate the lines on their switch. So they pay
15 for that switch, and then they pay for the
16 transmission equipment to get the calls across the
17 network and then they pay for the tandems and they
18 pay for the entire intraoffice network.

19 The CLEC being much smaller, that is not
20 an effective arrangement for them. They don't need
21 as many switches, so they centralize their switch
22 and put the DLC equipment in at the remote offices

1 in order to concentrate the traffic there.

2 Q. Do you know how many switches AT&T has in
3 MSA-1?

4 A. That's what I said before, I thought they
5 had -- didn't I say they had 154?

6 Q. Those were switches? I thought they were
7 end offices.

8 A. Sorry?

9 Q. I thought you referred to them as end
10 offices or are those the same?

11 A. What I said was they had 154 end offices,
12 78 remote switches and 15 tandems.

13 JUDGE HILLIARD: (Brief interruption.)

14 BY MR. WARD:

15 Q. So that's back on Page 12, the 1534 end
16 offices?

17 A. 154, yeah.

18 Q. Would there be only one switch in each end
19 office?

20 A. What I meant by end office in that sentence
21 was a switch.

22 Q. All right. And so 78 remote switches, that

1 would be 78 switches also?

2 A. That's right.

3 Q. And 15 tandem offices, that would be 15
4 switches?

5 A. That's correct.

6 Q. On Page 15, down the page at line 296 and
7 on to over Page 16, you state that as more
8 end-users are served by CLECs, less ILEC traffic is
9 carried between ILEC end-users, and therefore,
10 fewer direct connections between the end offices.

11 A. Right.

12 Q. Aren't those connections already some costs
13 established by the legacy network by AT&T?

14 A. Well, it may be so. But then they don't
15 get used very effectively.

16 The size of the switching network, the
17 size of the transmission facilities in the network
18 is an ever-changing affair, and it gets
19 administered according to the traffic quantities.

20 The facilities actually can be, you
21 know, facilities can be reconnected, re-cross
22 connected in varying ways.

1 I think what I said is fair to say
2 regardless if they're sunk and abandoned, that's a
3 waste as well. And that's a cost to AT&T.

4 **Q.** If you turn to Page 17 please.

5 **A.** I'm sorry?

6 **Q.** Page 17.

7 **A.** Okay.

8 **Q.** Line, I believe your answer begins on
9 Page 316. You make reference to the FCC's analysis
10 based upon one that contained UNE-P services?

11 **A.** Yeah.

12 **Q.** Do you know when the loop was initially
13 unbundled in this state, Illinois?

14 **A.** I think it was done actually -- I think it
15 was back in the late 80's I thought or maybe early
16 '90s.

17 **Q.** Okay.

18 **A.** I don't know. I don't know. I have to
19 back off. I don't remember if that happened before
20 or after the Communications Act.

21 **Q.** You want to accept, subject to check, that
22 the Illinois Commerce Commission issued an order in

1 1995 on the bundling the loop?

2 MR. ANDERSON: I object. The orders speak for
3 themselves.

4 JUDGE HILLIARD: Do you have a question that
5 requires knowing that date?

6 MR. WARD: Yes, or roughly the year, the time
7 frame.

8 JUDGE HILLIARD: Well, for purposes of your
9 question, the witness can assume 1995.

10 MR. ANDERSON: Can I have the question read back
11 please.

12 BY MR. WARD:

13 Q. I asked you to accept, subject to check,
14 that the Illinois Commerce Commission issued an
15 order of unbundling the loop in 1995.

16 A. I accept that subject to check.

17 Q. And that the first UNE-P was provided in
18 Illinois in I believe it was October 2000?

19 MS. SUNDERLAND: Oh --

20 THE WITNESS: If you say that, subject to check.

21 MR. ANDERSON: Wait a minute.

22 If you are going to ask the witness to

1 accept something, subject to check, I would ask
2 that you provide a reference for him to check.
3 Just asking him a fact and asking him to accept
4 your statement of a fact, subject to check, I don't
5 believe is an appropriate use of that technique.

6 MR. WARD: Well, I believe that the first UNE-P
7 line provided in Illinois is part of the testimony
8 that's been in the record before this Commission.

9 MR. ANDERSON: If it's part of the record of
10 this proceeding, that's fine.

11 MR. WARD: The part that isn't is the ICC order
12 and that will speak for itself.

13 MR. ANDERSON: Then there is no need to ask him.

14 MR. WARD: I'm just trying to establish
15 foundation.

16 THE WITNESS: If you are trying to get the
17 information on the record that UNE-L became
18 available before UNE-P, I know that to be a fact.

19 BY MR. WARD:

20 Q. And so during that time period, there was
21 no UNE-P alternative for CLECs to utilize to reach
22 mass market consumers in the residential market?

1 **A.** There was no UNE-P, that's correct.

2 **Q.** And at that time, what was the UNE-L

3 penetration to the residential mass market?

4 **A.** I don't know. I don't have that

5 information on hand. I know it grew fairly rapidly

6 for a while.

7 **Q.** Do you know the size, the number of lines?

8 **A.** I could look it up. But, no, I don't know

9 it.

10 **Q.** The bottom of that page beginning line 327,

11 you talk about AT&T's decision not to use UNE-L in

12 the residential market.

13 Do you see that?

14 **A.** Yes.

15 **Q.** Is it true that AT&T had multiple switches

16 in MSA-1?

17 **A.** Oh, yes, they have many switches.

18 **Q.** And AT&T was collocated in every Illinois

19 Bell end office in MSA-1?

20 **A.** Well, I doubt that but they had ample --

21 they did have collocation facilities.

22 JUDGE HILLIARD: You are talking about the old

1 AT&T, not AT&T Illinois?

2 MR. WARD: Correct.

3 JUDGE HILLIARD: All right.

4 THE WITNESS: Well, I doubt they were collocated
5 in every office, but they did have a lot of
6 collocations.

7 BY MR. WARD:

8 Q. And didn't AT&T Communications of Illinois
9 have direct connections between Illinois Bell's end
10 offices?

11 A. Direct connections between?

12 Q. End offices as opposed to going through the
13 tandem on all calls?

14 A. Are you talking about predivestiture AT&T?

15 Q. Right. It's difficult with this company --

16 THE WITNESS: I don't understand that question.

17 MR. ANDERSON: You are talking about the
18 pre-merger AT&T CLEC operation, correct?

19 MR. WARD: Right.

20 MR. ANDERSON: Pre-merger AT&T CLEC? Not
21 pre-divestiture.

22 MR. WARD: Yes. The pre-merger AT&T or --

1 THE WITNESS: Pre-merger AT&T.

2 Ask me that question again please.

3 BY MR. WARD:

4 Q. I will refer to it pre-merger AT&T. I will

5 start over.

6 The pre-merger, AT&T had multiple

7 switches in MSA-1?

8 A. They had host switches.

9 Q. Pre-merger, AT&T had multiple switches

10 located in MSA-1?

11 A. Well, they had a lot of switches around. I

12 assume they had several switches in MSA-1.

13 Q. And then pre-merger AT&T was collocated in

14 each of the Illinois Bell end offices in MSA-1?

15 MR. ANDERSON: I believe that's been asked and

16 answered.

17 THE WITNESS: I think that's not true. I think

18 they had collocation spaces in many central

19 offices, but not in all.

20 BY MR. WARD:

21 Q. What percentage? Do you know?

22 A. I don't know.

1 **Q.** Isn't it true that AT&T had -- pre-merger,
2 AT&T had direct connections between Illinois Bell
3 end offices?

4 **A.** I don't know that.

5 **Q.** And do you know that pre-merger, AT&T was
6 the largest provider of long distance services to
7 residential customers?

8 **A.** Yes, I think it was that.

9 JUDGE HILLIARD: Where?

10 MR. WARD: In Illinois.

11 THE WITNESS: It was nationally. I will assume
12 it was in Illinois, as well.

13 BY MR. WARD:

14 **Q.** You are assuming Illinois was an anomaly
15 for AT&T?

16 **A.** I have no reason to believe that.

17 **Q.** Now, I'm going to ask you to turn to
18 Page 18. The question on line 345 regarding
19 Mr. Segal.

20 You indicate that in this answer -- the
21 question is, did he, being Mr. Segal, consider any
22 of the approaches you outlined in this testimony.

1 You answer currently not.

2 Then you go onto refer to your DLC
3 arrangement that you testified to.

4 Do you see where I'm referring?

5 **A.** I do.

6 **Q.** And you indicated that the DLC arrangement
7 is equipment that the CLEC would install in a
8 central -- in a collocation space in the central
9 office, right?

10 **A.** Yes.

11 **Q.** Isn't it true that Mr. Segal testified that
12 part of his investigation was having discussions
13 with equipment providers?

14 **A.** He may have said -- yes, I think he said
15 that.

16 **Q.** Didn't Mr. Segal also testify that his
17 conversations also was facility-based CLECs?

18 **A.** Yes.

19 MR. ANDERSON: I object to this question, in
20 that Mr. Segal's testimony speaks for itself.

21 MR. WARD: Well, it's not that I'm impeaching
22 the witness. I'm basing a foundation for my motion

1 to strike.

2 MR. ANDERSON: I haven't heard any impeaching

3 question so far.

4 MR. WARD: Give it time please.

5 JUDGE HILLIARD: Overruled.

6 BY MR. WARD:

7 Q. And Mr. Segal -- do you have Mr. Segal's

8 testimony there?

9 A. Yes.

10 Q. Page 7.

11 A. Let me get to it please.

12 Q. Okay. Page 7, line 204, and the

13 explanation following that is since Mr. Segal

14 testifies as to the routing of a call for a CLEC

15 through the facilities used by that CLEC other than

16 the UNE-P?

17 A. I think that's a reasonable accurate

18 description.

19 Q. And line 206 refers to routing a CLEC call

20 to a collocation facility of the CLEC?

21 A. Yes.

22 Q. And isn't the DLC, the equipment that you

1 testified to gets installed in the collocation
2 facility in your hypothetical configuration?

3 **A.** Well, that's one thing that can be
4 installed at such a facility.

5 **Q.** And on Page 8 of Mr. Segal's testimony,
6 lines 224 to 227, doesn't Mr. Segal testify about
7 the problems of a CLEC having to collocate
8 facilities at the various end offices?

9 **A.** Yes, but I think my testimony said that he
10 didn't have to do that.

11 **Q.** And same page, Page 8, 227 to 233,
12 Mr. Segal testifies regarding the problems of a
13 facilities-based CLEC collocating to provide
14 wholesale services to another CLEC; is that
15 correct?

16 **A.** Well, all that said, was that he couldn't
17 find -- he claims he could not find a
18 facilities-based provider who was interested in
19 providing service to his particular confederation.

20 **Q.** But in that testimony, Mr. Segal describes
21 the configuration of a facilities-based CLEC in
22 selling his own facilities in the collocation space

1 in the Illinois Bell end offices?

2 MR. ANDERSON: Again, I'm going to object.

3 This is simply asking the witness to go
4 through and accept a paraphrase of Mr. Segal's
5 testimony.

6 Mr. Segal's testimony says what it says
7 or doesn't say what it doesn't say. I don't
8 understand the point of this cross.

9 MR. WARD: Again, we point out we're laying a
10 foundation to what Mr. Segal does testify to and
11 how this witness gets to this speculative
12 conclusion based upon this unless he can identify
13 something else in the testimony.

14 JUDGE HILLIARD: I don't think it's necessarily
15 a speculative conclusion. I think he has a
16 different opinion than Mr. Segal.

17 MR. WARD: One more question, if I may.

18 JUDGE HILLIARD: All right.

19 BY MR. WARD:

20 Q. Also on Page 8, lines 233 to line 235,
21 doesn't Mr. Segal testify that if those problems
22 are overcome, that it is possible for a collocated

1 CLEC to be able to transport an aggregate of
2 traffic back to the CLEC switch?

3 **A.** Yes, so you say.

4 If he developed collocation, apparently
5 he would be able to transport the aggregated
6 traffic to the CLEC switch location.

7 Yes, he could do that.

8 **Q.** And isn't it, under your testimony, a DLC
9 facility is a facility that a CLEC would collocate
10 at an ILEC central office and could aggregate
11 multiple lines into one DLC facility?

12 **A.** Yes, that's one way of doing it.

13 There are other less efficient ways of
14 doing it, as well.

15 **Q.** Based upon Mr. Segal's testimony in those
16 regards, what in that testimony gives you reason to
17 state that Mr. Segal did not consider DLC
18 arrangements?

19 **A.** Because he said as I mention in my
20 testimony -- he said the technological problems --
21 I'm trying to find the quote for this.

22 Basically he said that developing his

1 own arrangements would have technical and economic
2 problems which had not yet been resolved.

3 The implication being, to me, that this
4 was new technology and that you couldn't really
5 figure out what to do with it just yet.

6 Whereas, this particular kind of
7 equipment has been in service around the world for
8 years, if not decades.

9 Q. Does Mr. Segal identify the DLC
10 arrangements as the technological problems have not
11 been resolved?

12 A. No, he didn't.

13 But what he said was the technical
14 arrangements he was looking at, had technical
15 problems, technical and economic problems, that had
16 not been resolved.

17 Since DLC equipment does not have
18 technical problems or economic problems that have
19 not been resolved because it's been in use for many
20 years, I conclude that, therefore, he must not have
21 considered that arrangement.

22 Q. And doesn't DLC have technical problems

1 regarding the fact that it has to be installed in
2 centralized office where you utilize DLC equipment?

3 **A.** It's not a problem. That's the way it
4 works. That's always been the way it works.

5 **Q.** Isn't there cost involved in that?

6 **A.** Of course, there's cost; nothing's free.

7 **Q.** Isn't there time involved in doing that?

8 **A.** Of course there is time involved in doing
9 that. It doesn't mean it's not feasible or
10 technically unworkable or economically unworkable.
11 Sure it costs something.

12 MR. WARD: I renew my motion to strike based on
13 lack of foundation.

14 I again submit to the ALJ that this
15 question and answer is purely speculative. There
16 is nothing in Mr. Segal's testimony that he didn't
17 identified or indicates that Mr. Segal did not
18 consider this particular type of arrangement.

19 JUDGE HILLIARD: You want to respond?

20 MR. ANDERSON: Sure. I believe Mr. Weber has
21 explained very clearly the basis for his testimony
22 at lines 337 through 352.

1 I would also note in going through
2 Mr. Segal's testimony and asking the witness to
3 accept that Mr. Segal made certain statements,
4 nowhere, to my knowledge, does Mr. Segal mention
5 DLC or discuss the DLC arrangement, which I believe
6 is another basis for the testimony of Mr. Weber.
7 So I believe the testimony is responsive.

8 If Mr. Ward wants to argue on his brief
9 that Mr. Segal's testimony meant something other
10 than what we thought it meant and what
11 Mr. Weber thought it meant, that's fine. But I
12 don't believe it's properly characterized as
13 speculative.

14 MR. WARD: I would respond, as I indicated
15 earlier on the original motion to strike, and if
16 that is AT&T's position, first of all, the proper
17 question would be did Mr. Segal testify as to DLC
18 arrangement.

19 Secondly, I would note if that is AT&T's
20 position, I can just with equal force state to the
21 ALJ that Mr. Weber knows nothing about anything
22 that he hasn't put in his written testimony filed

1 before the Commerce Commission; that is exactly the
2 comment and answer he is making here on this Q and
3 A that we move to strike. If he hasn't testified
4 to it, therefore, he hasn't considered it.

5 If Mr. Weber has not testified to it,
6 then he hasn't considered it. I think that shows
7 the absurdity of that position. I'm sure Mr. Weber
8 knows more than he has testified to today. I'm
9 sure he has considered more than he has testified
10 to today. This gross speculation is only a
11 misdirection in the record.

12 JUDGE HILLIARD: I don't think your motion is
13 well taken. I'm not acceding to your demand to
14 strike this question and answer.

15 MR. WARD: I have no further questions of this
16 witness.

17 JUDGE HILLIARD: Any more cross for the witness?

18 MS. SATTER: I just have one question.

19 CROSS EXAMINATION

20 BY

21 MS. SATTER:

22 Q. In your testimony, in your written

1 testimony and today, you have referred to a more
2 efficient use of facilities.

3 When you say "more efficient," do you
4 mean less costly?

5 **A.** Yes, I guess it could be thought that way,
6 yeah.

7 MS. SATTER: Thank you. That was my only
8 question.

9 JUDGE HILLIARD: Anybody else?

10 MR. HARVEY: Nothing from staff, your Honor.

11 JUDGE HILLIARD: Nothing from CUB? Nothing from
12 the State's Attorney's office?

13 MR. GOLDENBERG: No questions.

14 JUDGE HILLIARD: Any redirect?

15 MR. ANDERSON: Just a second.

16 (Whereupon, a discussion
17 was had off the record.)

18 MR. ANDERSON: No, redirect, your Honor.

19 JUDGE HILLIARD: Thank you, sir.

20 Please call your next witness.

21 (Witness sworn.)

22

1 HARRY M. SHOOSHAN,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY

6 MS. SUNDERLAND:

7 Q. Would you state your name and business
8 address for the record.

9 A. Yes. My name is Harry M. Shooshan. My
10 business address is 7979 Old Georgetown Road.
11 Bethesda, Maryland.

12 MS. SUNDERLAND: At this time, before making him
13 available for cross, I'll ask for admission -- move
14 for the admission of AT&T Illinois Exhibit 4.0 and
15 4.1.

16 JUDGE HILLIARD: Any objection?

17 MS. SODERNA: No objection.

18 JUDGE HILLIARD: Exhibits 4.0 and 4.1 will be
19 admitted.

20 (Whereupon, AT&T Illinois Exhibit Nos. 4.0, 4.1
21 were admitted into evidence.)

22 MS. SUNDERLAND: Mr. Shooshan is available for

1 cross-examination.

2 JUDGE HILLIARD: Go ahead.

3 CROSS EXAMINATION

4 BY

5 MS. SATTER:

6 Q. Good afternoon.

7 A. Good afternoon.

8 My name is Susan Satter. I'm appearing

9 on behalf of the People of the State of Illinois.

10 I'm going to be asking you questions about your

11 rebuttal testimony, that's 4.1, and some of your

12 exhibits from your direct.

13 So I would like to start on Page 2 of

14 the first full question and answer.

15 You say AT&T Illinois competitors, and

16 then you italicize choose to compete by offering

17 feature-rich packages.

18 JUDGE HILLIARD: What line?

19 MS. SATTER: 35.

20 JUDGE HILLIARD: Exhibit 4.1?

21 MS. SATTER: Yes.

22 JUDGE HILLIARD: Okay.

1 BY MS. SATTER:

2 Q. Now, do you know whether CLECs who do not
3 own a switch and who use UNEs or the LWC -- you
4 know what I mean by LWC, right?

5 A. Yes.

6 Q. Do you know whether they obtain the ability
7 to offer features in a package such as vertical
8 services as part of the wholesale switch price or
9 switch cost?

10 A. As I understand wholesale complete, they
11 do, yes.

12 Q. And for -- what about for an UNE-P product,
13 does that also include all the vertical services as
14 part of the switch?

15 A. Yes, the vertical services that are offered
16 off a switch have always been a part of UNE-P and
17 also a part of Wholesale Complete is my
18 understanding.

19 Q. So for CLECs that use those platforms,
20 either the LWC or UNE-P, their wholesale switch
21 cost stays the same whether the consumer prefers a
22 feature-rich package or not; is that correct?

1 **A.** Well, it's really beyond the scope of my
2 testimony. I hadn't thought about it directly.

3 They buy Wholesale Complete as a
4 package, wholesale package, from AT&T Illinois.
5 And then they attempt to market all or some of the
6 services that run off that package to their
7 end-user customers, yes.

8 **Q.** So it's --

9 **A.** I'm sorry. Maybe to clear up a
10 misunderstanding you have, the language on my
11 rebuttal was addressing the points that were made
12 to somehow disqualify intermodal competitors from
13 this case based on the fact that they don't offer a
14 stand-alone product that's designed just like basic
15 local exchange service. I wasn't really addressing
16 intramodal competition.

17 So, again, just to be clear what I was
18 talking about here, I was not talking about a
19 Wholesale Complete base or UNE-P base competitor,
20 but we can talk about that if you want.

21 **Q.** Oo but when you say that a competitor
22 chooses to compete by offering a feature-rich

1 package, you do that against the back-drop of a
2 wholesale market that includes all those features
3 in the wholesale costs; is that correct?

4 **A.** No, I think that's where the
5 misunderstanding is.

6 Again, my testimony in this case really
7 goes to the existence of intramodal competition. I
8 also address one feature or one aspect of
9 intramodal competition which is the cable
10 participation in this market.

11 **Q.** So you were not discussing wireline-based
12 competition or UNE based competition at all; is
13 that right?

14 **A.** I think the latter. The UNE-based
15 competition or which would be technically
16 intermodal competition is beyond the scope of my
17 testimony.

18 **Q.** Okay.

19 **A.** Mr. Wardin provides the evidence on
20 intramodal competition.

21 **Q.** Oo so you are only talking about the
22 feature-rich packages that's a cell phone provider

1 might offer?

2 **A.** Cell phone provider, web provider. The
3 points that I was responding to are points that are
4 made in intervenor's testimony against
5 consideration of intramodal providers, and that's
6 what I was responding to here.

7 **Q.** Okay. You refer to a comparison of
8 features and prices contained in your direct
9 testimony, Schedules HMS 7 and 8.

10 **A.** Yes.

11 **Q.** And I wanted to just ask you a couple of
12 questions about those schedules.

13 **A.** Be there in a minute. Okay.

14 **Q.** Now, your Table 1?

15 JUDGE HILLIARD: What page?

16 MS. SATTER: HMS 7, Page 1. It's the schedule
17 to the direct testimony.

18 JUDGE HILLIARD: Okay.

19 BY MS. SATTER:

20 **Q.** You are comparing AT&T's, what you call
21 Basic Service Plan 5, and is that supposed to be
22 the unbundled access and usage?

1 **A.** I'm sorry. That's their retail offering.

2 **Q.** Is that supposed to be their retail access

3 charge and per-call usage charge?

4 **A.** Yes.

5 **Q.** Okay. Now, are you aware that there is a

6 volume discount for the usage charge?

7 **A.** Yes.

8 **Q.** And so you would agree that this \$6 is

9 actually high because it doesn't reflect the usage

10 charge, correct?

11 **A.** Which \$6 are we talking about.

12 **Q.** Okay. You are on Table 1?

13 **A.** Yes.

14 **Q.** The second line is residential usage 3

15 cents per call times 200 calls equals \$6?

16 **A.** Yes.

17 **Q.** And that is high because it doesn't reflect

18 the volume discount, correct?

19 **A.** I don't know that that's correct. I think

20 the volume discount is based on minutes, as I

21 recall.

22 **Q.** Oh, so it's your understanding that the

1 basic service plan is charged per minute rather
2 than per call?

3 **A.** No. I was talking about the -- oh, you're
4 talking about the AT&T usage element that's in this
5 plan?

6 **Q.** Well, that's what is on Page 1, yes?

7 **A.** I stated it there in column one, the
8 billing element is 3 cents a call by 200 calls.

9 **Q.** And you understand -- do you understand
10 that there is a volume discount?

11 **A.** Yes, that was discussed this morning among
12 other places, yes.

13 **Q.** All right. So then if you were to apply
14 the volume discount, the price would not be \$6 to
15 the end consumer, but rather \$3.86, subject to
16 check, as it was this morning?

17 **A.** Subject to check, yes.

18 **Q.** Then on Page 2 you have -- excuse me.

19 JUDGE HILLIARD: Can I ask a question.

20 How does that work? If I make 150
21 calls, is that 3.86 cents or is that \$4.50 cents?

22 MS. SATTER: I'm sorry?

1 JUDGE HILLIARD: If one were to make 150 calls,
2 do you get the volume discount or not?

3 MS. SATTER: Yes, the volume discount is from
4 \$2.60 or \$2.61 and above. So you take -- that's
5 what 85 calls, something like that.

6 JUDGE HILLIARD: Well, there is two different
7 volume discounts. When does the second one kick
8 in?

9 MS. SATTER: It's graduated. So it starts \$2.60
10 \$5.20, then it goes up. I actually do have that
11 here somewhere.

12 MR. HARVEY: I think it's 7.80 based on
13 progression.

14 MS. SATTER: It's a progression. This is in the
15 tariff. When you are at 100 percent, you made
16 \$10.11 of calls per usage, then you can't incur
17 anymore usage charge. So that's how it works.
18 It's in the tariff.

19 JUDGE HILLIARD: Okay.

20 MS. SUNDERLAND: Can off the record off for just
21 a second.

22 JUDGE HILLIARD: Sure.

1 (Whereupon, a discussion was had off the record.)

2 MS. SUNDERLAND: So, basically, the bottom line

3 is we will not accept the numbers, subject to

4 check, either this morning or now. And we will

5 supply, for the record, a table that shows what the

6 rates would be based on the volume discount.

7 JUDGE HILLIARD: Okay.

8 MR. HARVEY: For staff's benefit, would it be

9 possible to make a specific reference to the tariff

10 page?

11 MS. SUNDERLAND: Sure.

12 MS. SATTER: I brought one this morning.

13 BY MS. SATTER:

14 Q. On Page 2 of the HMS-7, that's again

15 attached to your direct testimony.

16 A. Yes.

17 Q. You compare an AT&T Illinois Enhanced

18 Choice Plus rate?

19 A. Yes.

20 Q. That you say is 39.95; is that correct?

21 A. Yes.

22 Q. Do you know -- how did you determine that

1 that was an Illinois Bell Telephone product?

2 **A.** I asked Illinois Bell for a product.

3 The goal here, if you read my testimony,
4 was to make a true apples to apples comparison
5 between not just the price, but the value of the
6 mobile offering versus the AT&T Illinois offering.

7 So we took the basic, we did the basic
8 price comparison on Page 1, the one we just
9 discussed. And then we do a more, what I believe,
10 is a fairer comparison in terms of factoring all
11 the value that comes with the mobile package to see
12 what the comparable cost would be of buying it from
13 AT&T Illinois.

14 So I said to them, Let's find your
15 package that most clearly fits the range of
16 offerings, the features that are available in the
17 comparer we are using, which is the T-Mobile plan.

18 We adjusted that plan too as you see as
19 well to have a bigger bucket of minutes that would
20 be more typical than what a mobile customer would
21 provide.

22 **Q.** Did you review any tariff sheets for this?

1 **A.** I did not.

2 **Q.** Do you know whether, in fact, it is a

3 tariff service?

4 **A.** My understanding is it is. But, as I said,

5 I did not review any tariff sheet myself. I got

6 this information from AT&T Illinois.

7 **Q.** You are assuming it is?

8 **A.** I'm assuming what they tell me is correct,

9 yes.

10 **Q.** So the tariff local rate is the 39.95, is

11 that your understanding? And then there is an

12 additional --

13 **A.** Yes, it's my understanding the difference

14 between this plan is basically that --

15 **Q.** Wait. Wait. Wait.

16 This is going to take too long. I asked

17 you is 39.95 the local tariff rate for local

18 service?

19 **A.** For access and for unlimited calling,

20 that's my understanding, yes.

21 **Q.** Okay. And the \$15 is the long distance

22 portion of the charge which is charged by another

1 component of AT&T Illinois; is that correct?

2 **A.** Yes.

3 MS. SUNDERLAND: No.

4 MS. SATTER: Excuse me. Well, if --

5 MS. SUNDERLAND: Let me just state for the

6 record that we are prohibited from providing long

7 distance service, so the long distance affiliate is

8 not a component of us, but it is an affiliate.

9 JUDGE HILLIARD: Okay.

10 MS. SATTER: Is that correct?

11 THE WITNESS: It is an additional component of

12 the package that we are comparing.

13 It is irrelevant to me who is the actual

14 provider of that service.

15 The question is, again, to try to

16 comparable offerings that the consumer chooses

17 among. BY MS. SATTER:

18 **Q.** So from a consumer's point of view, you

19 think it's irrelevant whether it's an affiliate of

20 AT&T Illinois or AT&T Illinois that is offering the

21 long distance component, the consumer is only

22 interested in the ultimate price; is that correct?

1 **A.** No. What I'm suggesting is that this is
2 what it is. It's the additional charge that AT&T,
3 an AT&T customer would pay for the long distance
4 calling component of this plan. That's what it is.

5 **Q.** But it's not an AT&T Illinois charge,
6 that's all I'm asking?

7 **A.** Fine. It's not.

8 **Q.** Okay. And it's not subject to this case
9 either, is it? The \$15 is not included in the
10 services that are subject to the classification
11 investigation in this case?

12 **A.** It's not, but so what.

13 **Q.** Well, I'm not asking for your opinion as to
14 whether that's important or not important.

15 MS. SATTER: So I would ask the ALJ to direct
16 the witness to answer the question asked and
17 refrain from editorializing?

18 JUDGE HILLIARD: Is there a question pending?
19 I'm not aware of it.

20 MS. SATTER: Well, not yet.

21 BY MS. SATTER:

22 **Q.** Now, on Page 1 of this exhibit, you refer

1 to the T-Mobile Basic National Rate Plan, 1999?

2 A. Yes.

3 Q. When did you last check to see the
4 availability of that plan?

5 A. Well, when I prepared this exhibit which
6 would have been in the -- I have to check the date.
7 Probably late December, early January, whenever we
8 were preparing this. I would say late December.

9 Q. Have you checked again to see if that rate
10 is still available?

11 A. No.

12 Q. Do you know if that rate is still
13 available?

14 A. Well, if I haven't checked, I don't know.

15 Q. Would it surprise you to learn that it is
16 not available?

17 A. It wouldn't surprise me.

18 In an unregulated market, prices and
19 packages change all the time. That's the beauty of
20 an unregulated, competitive market.

21 Q. So in an unregulated, competitive market,
22 prices change rapidly and, yet, you didn't check to

1 see if the rate had changed?

2 **A.** It's irrelevant for the point in which this
3 exhibit is offered.

4 **Q.** Excuse me. Did you check?

5 MS. SUNDERLAND: That's been asked and answered.

6 JUDGE HILLIARD: That's been asked and answered.

7 Move on.

8 MS. SATTER: Okay.

9 BY MS. SATTER:

10 **Q.** Now returning to your rebuttal testimony?

11 **A.** Yes.

12 **Q.** On lines 51 through -- starting on line 51
13 you say, Not every customer will find that such
14 packages. And I believe you mean the packages
15 referred to in your Schedule HMS 7, which was
16 talked about.

17 **A.** Not necessarily.

18 **Q.** So any package?

19 **A.** Yes. If you go back to the question that I
20 posed here, I'm responding to this is rebuttal
21 testimony. And I'm rebutting the suggestion that
22 consumers who don't want a package aren't protected

1 by the fact that there are many consumers who do.

2 That's the point of what I'm saying.

3 It's responding. It's rebuttal testimony to those
4 points.

5 Q. All right. Your statement was while not
6 every customer will find such packages meet their
7 needs, the point is that if enough customers are
8 willing to substitute, AT&T Illinois is constrained
9 from sustaining a price increase above competitive
10 levels for basic local exchange service?

11 A. Yes.

12 Q. So my question is: When you say, Willing
13 to substitute, do you mean willing to substitute
14 telephone service in the most generic sense? In
15 other words, access, if they're willing to
16 substitute access?

17 A. You mean the connection?

18 Q. Yes.

19 A. Yes.

20 Q. Okay. AT&T is constrained from sustaining
21 a price increase above competitive levels for basic
22 local exchange service, do you mean access or

1 packages?

2 **A.** I'm talking about -- again, I'm talking
3 about the basic local exchange service, which is
4 the subject of this case. That's what I'm talking
5 about. And I'm responding to the assertion that
6 was made that packages that contain many features,
7 the availability of those in the marketplace are
8 not an adequate protection for a subset of
9 customers that don't want those packages and all
10 the features. That's what I'm responding to here.

11 But what I'm talking about is the
12 ability of AT&T to change above competitive levels
13 the price for basic local change service. That's
14 what we are talking about here.

15 **Q.** When you say, While not every customer will
16 find that such packages meet their needs, the point
17 is that if enough customers are willing to
18 substitute. Substitute what for what?

19 **A.** Substitute the package.

20 **Q.** For?

21 **A.** For basic local exchange service.

22 **Q.** For unbundled?

1 **A.** Pardon me?

2 **Q.** Unbundled access and usage?

3 **A.** I don't understand what you mean by
4 unbundled access and usage.

5 This is a case, as I understand it,
6 about the retail offerings of -- and the pricing
7 ability of AT&T Illinois and its retail offerings.

8 They have a service called, Basic Local
9 Exchange Service that has a number of different
10 flavors, shall we say. And I can't say anything
11 more than I've said.

12 There was a point that Dr. Taylor made
13 this morning as well, that the protection that a
14 customer has who may not be attracted to a
15 particular package because he or she doesn't want
16 the vertical features, doesn't value the long
17 distance calling, whatever is in that package, the
18 protection they get is from the marginal customer
19 who says, That is something I would value, I'll
20 switch.

21 The fear on the part of AT&T of losing
22 those customers by raising basic local exchange

1 service is, as I believe as Dr. Taylor said this
2 morning, is ample protection for those consumers.

3 Q. When you say, competitive level in that
4 section, do you mean the price for the competitor
5 to an Illinois Bell charges for packages?

6 A. No. I mean what a competitive level would
7 be in a deregulated market, which we have never
8 seen in the local telephony market in my lifetime.

9 Q. So there is no competitive level today?

10 A. That's correct.

11 There is no competitive level today
12 because, indeed, one of the most significant
13 competitors is subject to regulation that its
14 competitors are not.

15 So, again, let's not be -- mince words
16 here. Prices rise and fall all the time in a
17 competitive market. And they rise and fall based
18 on what the competitive level is at any given time
19 in that market. That's all I'm saying here.

20 Q. Do you think they rise and fall based to
21 any extent on the costs of providing the service?

22 A. Again, that's not the scope of my

1 testimony, but I would associate my views with
2 those of Dr. Taylor this morning; that, obviously,
3 if a firm is to stay in business over a time, it
4 has to recover its cost.

5 But in a competitive market, the level I
6 set my prices at are based on what the other
7 competitors in the market are pricing their
8 products at, not on any regulatory-derived notion
9 of costs or costs plus.

10 Q. So if the reclassification to competitive
11 were allowed, then AT&T Illinois would have the
12 opportunity to price its services in accordance
13 with other competitors in the marketplace?

14 A. Yes. "In accordance with." I would agree
15 with the way you stated it. I would agree with "in
16 accordance with."

17 Q. You suggest that the price of stand-alone
18 service is constrained on the competitive level.
19 Let me ask you a couple questions about that.

20 Would Illinois Bell risk losing
21 customers if the customer's price, packaged or not
22 packaged, is lower or equal to the price for --

1 lower or equal to the price for the services the
2 consumer wants?

3 **A.** Try that again. I didn't understand the
4 question.

5 **Q.** Do you believe that Illinois Bell would
6 risk losing customers to a competitor if the
7 competitor's price for packaged services is lower
8 or equal to the price Illinois Bell would have for
9 the services the customer wants?

10 MS. SUNDERLAND: I would still object to the
11 form of the question. I don't understand it. The
12 witness doesn't understand it.

13 JUDGE HILLIARD: Give it a try one more time.

14 MS. SATTER: Okay.

15 MS. SUNDERLAND: I think it needs to be
16 rephrased rather than just restated.

17 JUDGE HILLIARD: Do you want to know if AT&T
18 Illinois is worried about losing customers if a
19 competitor costs were lower than AT&T Illinois?

20 MS. SATTER: No, its price was lower.

21 JUDGE HILLIARD: If its price was lower than
22 AT&T costs?

1 MS. SATTER: No. No. No.

2 If the competitor's price was lower an
3 AT&T Illinois price, then wouldn't AT&T Illinois be
4 concerned that they would loose customers to that
5 competitor provided that it's for the same services
6 that the customer wants?

7 THE WITNESS: Well, to the extent I understand
8 the question, I guess any time one of my
9 competitors under-prices me, I would be concerned.
10 Whether that would happen in the marketplace given
11 the relevant, you know, cost structures of the
12 providers, I don't know.

13 BY MS. SATTER:

14 Q. If Illinois Bell's package rates are lower
15 or equal to the stand-alone rate, customers may
16 switch or not switch depending on their assessment
17 of value, do you agree, their value of the services
18 included in the --

19 A. Did you say if their packages were less
20 than their stand-alone services?

21 Q. Were equal or less than the stand-alone
22 services?

1 **A.** I can't --

2 MS. SUNDERLAND: Including all the same
3 functionalities?

4 MS. SATTER: It's up to the consumer to decide
5 what functionalities they want.

6 THE WITNESS: I mean, given the level of the
7 prices that we're talking about here, and some of
8 them are reflected in Table 1, a residential access
9 line for as low as \$2.55 a month, I mean, I can't
10 imagine the package price would be lower than that
11 for whatever one considers to be access component
12 of that.

13 That's, as I said, an accident
14 historically how we regulated this market. It
15 bears no reflection whatsoever on how, in a
16 competitive market, one would price their services.

17 **Q.** So in a competitive market, you expect the
18 prices to go up?

19 **A.** I expect that these kinds of prices would
20 change. And I would suspect that they would go up.

21 JUDGE HILLIARD: "These kind," being the prices
22 referred to in Exhibit 1 for access?

1 THE WITNESS: Yeah.

2 For example the two -- again, understand
3 that, again, even the idea of charging separately
4 for access and usage is something we typically
5 don't see in the competitive marketplace. Cable
6 isn't doing it; VoIP isn't doing it; mobile
7 wireless providers are not doing it. Access and
8 usage are all bundled together in effect.

9 So all of these, the way we priced
10 telephone service today up to now, is really, as I
11 said, an accident in history. It's what we derived
12 from an environment when there was a single
13 regulated end-end monopoly provider.

14 MS. SATTER: I think you answered the question
15 and more.

16 BY MS. SATTER:

17 Q. Would your answer be the same for all
18 stand-alone services? In other words, all
19 stand-alone services are priced lower than they
20 would be if it was priced in a competitive market?

21 A. What stand-alone prices are talking about?

22 Q. I will strike that if you don't understand

1 the question.

2 A. I don't understand the question.

3 Q. Okay. I wanted to ask you a couple of

4 questions about some comments you made on Page 16,

5 lines 313 to 317?

6 A. I will be right there.

7 Q. You make a reference to "our surveys." You

8 say, Our surveys demonstrate that most consumers

9 are using their cell phones for et cetera,

10 et cetera?

11 A. Yes.

12 Q. Here you just mean the survey that you

13 describe in your direct testimony, right?

14 A. Described and oversaw, yes.

15 Q. You are not talking about any other

16 surveys, any other independent surveys you've been

17 --

18 A. No, I meant these surveys I introduced

19 along with my direct testimony. By the way, I

20 might add just as a footnote --

21 Q. You know, if there is no question pending.

22 A. Okay.

1 **Q.** On Page 33 at line 627, you refer to users
2 with more generous allowances that they tend to use
3 their phones more often?

4 **A.** Yes.

5 **Q.** Did you undertake to determine whether
6 consumers who have cut the cord will on average
7 subscribe to a calling plan for more minutes than
8 the average wireless customer?

9 **A.** I have not made that study.

10 **Q.** Would you agree that many wireless users
11 don't have their cell phones turned on all of the
12 time?

13 **A.** Yes, I don't have mine turned on right now.
14 I have two of them.

15 **Q.** Did you undertake to determine whether
16 customers who would cut the cord will on average
17 have their wireless phone turned on more of the
18 time than the average wireless phone user?

19 **A.** No.

20 **Q.** So you haven't investigated that?

21 **A.** No.

22 **Q.** Are you familiar with service quality

1 reports on wireless usage?

2 **A.** That there are service quality reports?

3 **Q.** Yes.

4 **A.** When you say reports, reports by whom?

5 **Q.** Let me ask you specifically.

6 Have you seen a report from J.D. Power &

7 Associates on customer satisfaction, dated

8 September of 2005?

9 **A.** This is one I cited?

10 **Q.** I don't recall if you cited it.

11 Let me show it to you and you can tell

12 me if it's something that you've seen. Wireless

13 Guide, dot, Org.

14 Does that ring any bells?

15 **A.** No. But I know the person at J.D. Power

16 who puts these reports together. And I don't

17 remember having seen this particular report.

18 **Q.** So you know that this report was produced

19 by J.D. Power & Associates, you know the individual

20 and you believe it's a credible source?

21 **A.** I know only what you handed me, which is a

22 printout. Usually when you print things off the

1 internet, you have the internet address, if you
2 will, on the bottom. I don't have that.

3 It's something that is from
4 the -- apparently from Wireless Guide, dot, Org.
5 And it's reporting, We show the results of two
6 survey studies by J.D. Power. So it's their
7 representation of what the J.D. Power studies have
8 shown. It's not a J.D. Power document.

9 **Q.** Right.

10 It's a -- now, would you agree that it
11 says, According to J.D. Power & Associates 2005,
12 U.S. Wireless Regional Customer Satisfaction Index
13 Study released in September 2005, overall
14 satisfaction performance with wireless service
15 providers has decreased 10 percent over 2004?

16 **MS. SUNDERLAND:** I'm going to object to this.

17 Obviously, the witness testified that he
18 has not seen this document before. He has not seen
19 the underlying J.D. Power studies. It is
20 inappropriate for --

21 **JUDGE HILLIARD:** Sustained.

22 **MS. SUNDERLAND:** Okay.

1 BY MS. SATTER:

2 Q. Would it surprise you that call performance
3 and reliability is a concern of cellular phone
4 users?

5 MS. SUNDERLAND: That's assuming a fact not in
6 evidence.

7 MS. SATTER: He can answer the question.

8 JUDGE HILLIARD: He can answer the question.

9 THE WITNESS: No, that's typically one of the
10 concerns that consumers have about mobile wireless
11 service.

12 BY MS. SATTER:

13 Q. And is another concern that consumers
14 typically have the ability of the wireless phone to
15 operate effectively in all portions of their home?

16 A. All portions of their home?

17 Q. Yes. If they're going to cut the cord,
18 yes.

19 A. Well, as I say in my testimony, I think
20 it's important in choosing among the various
21 providers to find one that works well in the home.

22 Indeed, I can say from my personal

1 experience, I have chosen among wireless providers
2 when I move based in large part on that. You want
3 to be able to use your cell phone while you are
4 home.

5 As to working in various parts of the
6 home, I never thought of it in those terms.
7 Typically, if it works well in the home, it will
8 work well in the home is what I found with wireless
9 service.

10 **Q.** But that's a concern in selecting a
11 wireless company, you can't just assume that it
12 will work in your home on a regular basis; is that
13 correct?

14 **A.** I think that's something that consumers, as
15 I said before, have the ability to find out, and
16 you can cancel a wireless contract within the first
17 7 to 14 days. And one of the reasons I have noted
18 that people tend to do that is that if you take
19 that phone home and it isn't working as well as it
20 was working in the store. So it's a decision they
21 can make about the quality of the service.

22 **Q.** Now, if they have not determined the

1 quality of the service to their satisfaction within
2 that 7 to 14 days, or whatever the period is under
3 the contract, don't most wireless companies require
4 a term of service, so that if you terminate it
5 before the end of the term, you have to pay a
6 termination fee?

7 **A.** Yes. But not if you terminate within the 7
8 to 14 days, then there is no cost at all.

9 **Q.** So that's the question is whether if you do
10 it within the period of time, you don't a cost, and
11 if you do it after the grace period, then you do
12 have a cost, is that correct? Is that your
13 understanding of thousand works?

14 **A.** If you are asking me if you sign a contract
15 with a mobile provider that has a early-termination
16 charge, and I terminate my contract early, I pay
17 that charge, that's correct.

18 But my point was there is a grace
19 period, if you will, of 7 to 14 days, depending on
20 the carrier, for you to take the phone home and
21 find out if it works well. And if it doesn't, you
22 bring it back, and you don't pay a thing for it.

1 And you walk across the street and get one from
2 another mobile carrier.

3 Q. Now, you refer to quality in your
4 testimony. And you say that wireline service in a
5 residence can suffer on occasion from loop
6 degradation from line cuts and from natural
7 disaster; such as, flood and fires?

8 A. Yes.

9 Q. You are aware, of course, that the Illinois
10 Commerce Commission has service quality rules, are
11 you not?

12 A. Yes.

13 Q. And those rules have certain requirements
14 as to the maintenance of the plan; is that correct?

15 A. Yes.

16 Q. And wireless companies are not subject to
17 the same rules; is that correct?

18 A. Obviously not. It's a different
19 technology.

20 Q. Now, you also talk about internet
21 connection in your testimony. And do you know what
22 the -- what Comcast Cable charges for internet

1 connection?

2 MS. SUNDERLAND: Are you talking about straight
3 broadband or are you talking about voice over
4 internet protocol?

5 MS. SATTER: Just broadband.

6 THE WITNESS: I can check. I have them
7 somewhere. I can't bring them to mind right now.

8 I do know there is a range of prices
9 depending on what you already are or what choose to
10 buy from Comcast.

11 That's a great example of someone who
12 charges more for buying the stand-alone service
13 than for buying the service broadband and internet
14 access as part of the package, for example.

15 BY MS. SATTER:

16 Q. You say that in your survey, 43 percent of
17 wireline respondents and 48 percent of wireless
18 respondents subscribe to wireless modem.

19 Did you ask how many subscribe to DSL?

20 A. No.

21 Q. You also refer to cable telephony on
22 Page 23 of your testimony.

1 **A.** This is my rebuttal again?

2 **Q.** Yes. And my question is: Are you

3 referring to cable --

4 **A.** What line?

5 **Q.** 452. Cable telephony is comparable in

6 quality?

7 **A.** Yes.

8 **Q.** Are you making any distinction between

9 circuit switch cable telephony and VoIP cable

10 telephony?

11 **A.** Again, this is rebuttal testimony.

12 I was rebutting Dr. Selwyn's point that

13 VoIP or internet protocol base telephony has

14 decided quality disadvantages relative to basic

15 local exchange service offered by AT&T Illinois.

16 **Q.** So you are referring then to the voice over

17 internet?

18 **A.** So my answer here, as the question would

19 suggest, is that I was responding to the IP

20 telephony product that is offered by Comcast in

21 Illinois. And it is of a comparable quality; that

22 is, the IP telephony product to the basic local

1 exchange product offered by AT&T Illinois as is
2 their switch product. It's a little bit --

3 Q. I didn't ask you about that.

4 A. Right exactly.

5 I'm talking about digital voice, not
6 about digital phone.

7 JUDGE HILLIARD: Do you know how persuasive that
8 product is in Illinois?

9 THE WITNESS: The digital voice service?

10 JUDGE HILLIARD: The IP product.

11 THE WITNESS: I would say this, that it
12 is -- my understanding is that it is Comcast's
13 plan, in fact I believe there is a tariff on file,
14 which suggests that they will offer it throughout
15 the entire AT&T Illinois footprint.

16 It is being rolled out by Comcast across
17 that footprint. I know because I have engaged in
18 the same exercise your Honor mentioned this morning
19 of punching in zip codes that some zip codes you
20 punch in one week and they say it's not available,
21 you punch it in a week later and it is.

22 And I would notice too if you go to

1 their Website in some instances on the front page,
2 it will say it's available and then you look for it
3 and you can't find it. Then there's a little note
4 at the bottom saying it's not available for
5 internet order at this time, but you can order it
6 by calling an 888 number.

7 But in any event, my understanding is
8 that Comcast intends to deploy it throughout AT&T's
9 footprint in the Chicago LATA and are doing so now.

10 And that's in addition to the installed
11 base of digital phone customers that they acquired
12 when they acquired what was the old AT&T broadband.

13 JUDGE HILLIARD: My question is: Do you know
14 how persuasive it is either today, say, in either
15 one of those modes?

16 THE WITNESS: I don't.

17 Mr. Wardin may have better knowledge
18 tomorrow. I can just say it's growing. It's
19 expanding rapidly.

20 JUDGE HILLIARD: Fine.

21 BY MS. SATTER:

22 Q. Now, in order to get the IP-based product,

1 you'd have to have -- the customer would have to
2 have a high-speed internet connection; is that
3 correct?

4 **A.** No.

5 **Q.** Okay. So it's an IP-based product, but the
6 customer does not have to have an internet
7 connection through Comcast, is that what you are
8 saying?

9 **A.** No.

10 JUDGE HILLIARD: What are you saying, sir?

11 THE WITNESS: What I'm saying is this: It's my
12 understanding -- I don't want to quibble, but you
13 asked me to answer the question that was asked, so
14 I'm trying to do that.

15 What it takes is a cable connection to
16 the home. It's my understanding that the customer
17 needn't be buying high-speed internet access from
18 Comcast in order to get that connection; that is,
19 they will connect your home and provide only their
20 IP telephony service to you whether or not you are
21 buying broadband access, internet access or even
22 cable television from them.

1 **Q.** Do you know what the price is?

2 **A.** I don't know offhand. I think that's at
3 the high end of the range. I think there is a
4 range, as I recall, this is subject to check, of
5 between \$35 and \$55 I think. This is the high end
6 of that range, which is understandable if you are
7 only buying one product. But you can get a cable
8 connection and only have IP telephony from Comcast,
9 it's my understanding, without buying anything
10 else.

11 **Q.** Now, on Pages 34 and 35 of the rebuttal,
12 the last question and answer, you refer to groups
13 that have substituted service.

14 Are these percentages based on your
15 survey?

16 **A.** The percentages that are listed starting on
17 lines 658?

18 **Q.** Yes.

19 **A.** Yes.

20 **Q.** Okay. I also wanted to ask you whether it
21 is true that in any of the proceedings in which you
22 have offered testimony since January of 2002, is it

1 true that you have never taken the position that
2 there was insufficient competition for reduced
3 regulatory oversight?

4 **A.** I think that was, if I recall, there was a
5 data request to that effect. And I would say here
6 again what I said there, that in these
7 proceedings -- in proceedings like this in almost
8 every case, the market being deregulated and the
9 services being deregulated were not necessarily
10 those that are effected in this case.

11 So the answer in short would be, yes, my
12 role has been to provide evidence of sufficient
13 competition in those cases and I have done that.

14 The one example I cited where I had --

15 **Q.** Mr. Shooshan, the question was whether you
16 had ever offered testimony along the lines that I
17 asked. You answered the question.

18 MS. SATTER: Thank you very much.

19 I have no further questions.

20

21

22

1 CROSS EXAMINATION

2 BY

3 JUDGE HILLIARD:

4 Q. How many times have you testified since
5 2002?

6 A. On any matter?

7 Q. Well, on the issue she's asking you about.

8 A. I'd say probably a dozen to 15 times.

9 Q. How many different venues same thing?

10 A. Again, each of those would be -- I guess
11 once before here. But I would say most of the
12 others would be separate venues. They would be
13 state proceedings where some -- whether it's
14 business services or resident services not
15 necessarily LATA wide, they may be -- the scope
16 might be smaller, but they were all basically
17 retail deregulation cases.

18 JUDGE HILLIARD: Okay.

19 MS. SATTER: I don't have anything else.

20 Thank you.

21 JUDGE HILLIARD: Mr. Goldenberg?

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CROSS EXAMINATION

BY

MR. GOLDENBERG.

Q. Good afternoon.

A. Good afternoon.

Q. You are a co-founder of a firm called
Strategic Policy Research?

A. Yes, I am.

Q. And is that a public policy and economics
consulting firm that specializes in
telecommunications?

A. You could have read that right out of my
bio, but yes.

Q. You are a lawyer, right?

A. I'm trained as a lawyer, yes.

Q. And you've worked as a lawyer over the
years?

A. Well, I haven't practiced law in a formal
sense since I left Capitol Hill in 1980. I was, at
that time, was chief counsel of what's now called
the House Telecom and Internet Subcommittee. But I
went into consulting in 1980 and I've been in

1 consulting for 26 years.

2 Q. Well, you spent 11 years on Capitol Hill,
3 correct?

4 A. I did.

5 Q. And that was as a lawyer?

6 A. Six of it was a lawyer. I was going to Law
7 School at Georgetown in the evenings, while I was
8 working full-time on Capitol Hill.

9 Q. How many times have you testified for AT&T
10 or any of its affiliates?

11 A. Again, to be clear, we are talking about
12 the new AT&T?

13 Q. The new AT&T and any of its affiliates.

14 A. I want to be clear because I did testify a
15 number of times for the old AT&T.

16 Q. Is that not part of the new AT&T?

17 A. All right. Let's see, if we include
18 pre-merger AT&T and current AT&T, it's going to be
19 dozens. I can't recall precisely.

20 Q. Have you ever testified on behalf of a
21 non-governmental consumer group like Citizens
22 Utility Board in Illinois?

1 **A.** No, I haven't had that opportunity. We
2 worked for the Staff's of several Commissions. I
3 think I indicated that.

4 MR. GOLDENBERG: Again, I object and move to
5 strike everything beyond the "no."

6 JUDGE HILLIARD: Overruled.

7 BY MR. GOLDENBERG.

8 **Q.** On Page 4 of your direct testimony, you
9 indicated what you based your conclusions on.

10 One of the items is your examination of
11 the market in the AT&T exchanges in the Chicago
12 LATA. What exactly did you, yourself, look at
13 here.

14 And, again, to give it context what I'm
15 looking for is how much are you relying on
16 Dr. Taylor, Mr. Wardin and AT&T Witness Moore?

17 **A.** All right. Certainly on Dr. Taylor for the
18 use of the LATA as the relevant market in this
19 case. I subscribe, obviously, to his views on why
20 that's an appropriate view of the market.

21 In terms of the sources of competition
22 within that market, I rely on Mr. Wardin, for

1 example, for the evidence of intramodal
2 competition, what we'll call CLEC competition. I
3 do address some aspects of that directly in my
4 testimony particularly as it relates to cable. And
5 there it's based on my investigation of the way in
6 which cable companies doing business in the Chicago
7 LATA, Comcast and RCN are actually offering their
8 services.

9 So it's a combination of both
10 Mr. Wardin and my own investigation.

11 In the case of mobile wireless, again,
12 it's based on my investigation, I say my, our
13 firm's investigation, of the carriers that are
14 doing business in the Chicago LATA.

15 Typically, we look to sources of
16 advertising in local papers and also go on websites
17 to see about availability of services in a
18 particular area. In large respect, that's also
19 true about the evidence I offer on VoIP, as well.
20 Where we've gone and looked at which of the
21 national providers are offering service in
22 Illinois.

1 So that would be a case of something
2 where we had done the initial research ourselves.

3 **Q.** Now, when you say you did your own
4 investigation with respect to some of the Comcast
5 data, what exactly do you mean?

6 **A.** Well, there for example, one of the things
7 going back to my exchange earlier with His honor is
8 that it was important for us to know the extent to
9 which Comcast was providing IP telephony in the
10 Chicago LATA. To do that, we looked at the tariffs
11 that they filed. We looked at the Website, as
12 well, to test to see where it was being rolled out.
13 We looked at evidence that we could find from a
14 local advertising of where they were providing the
15 service. So there it was -- then, again, of
16 course, since
17 Mr. Wardin is on the ground here, in many
18 instances, we would ask him to check on data for
19 us. But there was a combination of effort.

20 **Q.** Did you try getting service from Comcast at
21 any specific addresses in the service territory?

22 **A.** Did I?

1 **Q.** Yeah. Or your firm?

2 **A.** I mean, when you say, try getting, you mean

3 actually getting connection?

4 **Q.** Call up and say, Do you offer service at

5 this address and specifically go location by

6 location to test the information that you are

7 looking at on the web?

8 **A.** We did not, but I understand Mr. Wardin

9 did.

10 **Q.** On Page 9 of your direct testimony, around

11 line 170, you provide your opinion on how the

12 Commission should interpret and apply the criteria

13 in Section 13-502 of the Illinois Public Utilities

14 Act?

15 **A.** Yes.

16 **Q.** Is your opinion based on any Illinois

17 Commerce Commission cases interpreting this

18 section?

19 **A.** No. It was a general recommendation to the

20 Commission that intermodal competition should be

21 fully considered just as much as UNE based or CLEC

22 competition.

1 **Q.** Is your opinion based on any Illinois court
2 cases interpreting this section?

3 **A.** I didn't have any specific court case in
4 mind when I wrote this it, no.

5 **Q.** So it's based on your experience and just
6 your reading of that section?

7 **A.** It was based on an anticipation that other
8 parties would, much as they did, come in and say
9 you shouldn't consider intermodal competition.

10 So I said I think as a matter of fact
11 you should, and then went onto explain why.

12 Indeed, that's the thrust of my
13 testimony.

14 **Q.** So on Page 9 of your direct around lines
15 171 and 172, when you use the phrase, "all
16 available substitutes" when indicating what the
17 Commission would consider, can you direct me where
18 in Section 13-502 you are basing this criteria on?

19 **A.** Well, I mean I think we are mincing words
20 here, sir.

21 I mean, basically the statute is not the
22 problem. The statute, it seems to me, invites this

1 Commission -- and I'm reading it as a, although I'm
2 trained as a lawyer, I'm not testifying here as a
3 lawyer. I am reading it as a layperson.

4 What I'm suggesting to the Commission is
5 simply that in making the assessment the 13-502
6 lays out for it, that it should consider
7 substitutes of all kinds regardless of the
8 technology platform that's being provided.

9 **Q.** But it doesn't approach the words the way
10 you approach the words?

11 **A.** I'm sorry?

12 **Q.** It doesn't approach those exact words, does
13 it, the statute?

14 MS. SUNDERLAND: I'm going to object.

15 He's argue with the witness about how to
16 read the statute.

17 JUDGE HILLIARD: Do you have a point
18 Mr. Goldenberg?

19 MR. GOLDENBERG: Judge, I think the witness is
20 both an attorney -- he is reading the statute. He
21 is telling your Honor and the Commission how he
22 interprets that statute, and he sort of modifies

1 things and I think I'm entitled to probe that.

2 JUDGE HILLIARD: He is paraphrasing the statute.

3 MR. GOLDENBERG: I'm not sure it was a
4 paraphrase. I think I'm entitled to probe that
5 because he's changing that.

6 JUDGE HILLIARD: I think you got not only that
7 he's testifying as a layman and he's stated what
8 his opinion is regarding the statute.

9 MR. GOLDENBERG: Oh, I wasn't done with that
10 question.

11 JUDGE HILLIARD: I think I will overrule your
12 objection at this time.

13 BY MR. GOLDENBERG:

14 Q. You would agree that one of the keys to any
15 analysis in this case is defining the relevant
16 market, wouldn't you?

17 A. Yes.

18 Q. What do you consider the relevant market to
19 be?

20 A. Well, I think that's beyond the scope of my
21 testimony it. I said already I rely on Dr. Taylor
22 for the assessment of what the relevant market is.

1 I happen to concur with his view that a
2 broad market given the nature of the services that
3 are being provided, the attributes of advertising
4 that go with it, that a broader and narrower
5 definition is appropriate. And I think the Chicago
6 LATA is certainly an appropriate and relevant
7 market for purposes of this assessment.

8 **Q.** Do you believe the language in
9 Section 13-502 allows for other possibilities based
10 on your experience?

11 JUDGE HILLIARD: Possibilities for what?

12 MR. GOLDENBERG: The relevant market.

13 MS. SUNDERLAND: I think the language in the
14 statute speaks for itself.

15 JUDGE HILLIARD: Sustained.

16 BY MR. GOLDENBERG:

17 **Q.** Do you believe that cable telephony is a
18 substitute for basic local exchange service in AT&T
19 Chicago LATA, don't you?

20 **A.** Yes.

21 **Q.** Are you familiar with the technical
22 differences between cable telephone and basic local

1 exchange service?

2 A. The alleged differences, yes.

3 Q. Well, do you feel there are differences?

4 A. No, I don't. Not on a significant degree.

5 I'm talking about both the switch product or
6 digital phone and Comcast digital voice which is
7 their IP base service. I think in every relevant
8 respect their commensurate in quality to AT&T
9 Illinois basic local exchange service.

10 Q. Does 911 work the same for both?

11 A. Yes, it does.

12 Q. Are they both powered the same way in terms
13 of electricity?

14 A. No, they're not powered the same way, but
15 they both provide for back-up power in the case of
16 a power outage.

17 Again, the important thing here, sir, is
18 not --

19 MR. GOLDENBERG: Judge, again, I'm going to
20 object to "the important thing here."

21 The question is are they both powered
22 the same way.

1 JUDGE HILLIARD: All right. Limit your answer
2 to that. Go ahead answer ask another question.
3 BY MR. GOLDENBERG:
4 Q. Do you know how a battery back-up lasts on
5 an internet power back-up in a residential home?
6 A. It various.
7 Q. What does it vary between?
8 A. I don't know.
9 I mean, obviously, the most important
10 variable is how often you are use using the
11 connection during a period of the power outage.
12 Q. Assuming you are on the phone, how long is
13 it going to last?
14 A. Making one continuous phone call?
15 Q. Yes.
16 A. During the power outage?
17 Q. Yes.
18 A. I don't know. It could be an hour or less.
19 Q. And if you were on that same phone if that
20 were wireline phone, how long would that last?
21 A. Since it's line powered, it would last
22 forever.

1 **Q.** And you don't consider that a technical
2 difference between cable telephone and basic local
3 exchange service?

4 **A.** I do not.

5 May I explain.

6 JUDGE HILLIARD: Yeah.

7 THE WITNESS: Again, the issue to me is not the
8 underlying technology that a provider uses to
9 incorporate a feature, but how that service is
10 perceived by a consumer.

11 And the fact that back-up power in the
12 event of an outage at the customer's location is
13 provided in different by different means; i.e., the
14 line power or in the case of a phone line or
15 battery back-up in the case of IP based telephony
16 offering, cable offering, is not to me
17 consequential.

18 Now, the question is well, what if
19 somebody decided to it talk for hours on an IP
20 phone during a power outage? I mean, I'll accept
21 that there's a difference there, but I suspect
22 probably what that customer would do wouldn't be to

1 use the IP telephony line at all, but to use their
2 cell phone. BY MR. GOLDENBERG:

3 Q. In your direct testimony, you talk about
4 wireless services, don't you? And you indicate
5 that wireless providers offer services comparable
6 to the services offered by AT&T Illinois; is that
7 correct?

8 A. Yes, in my opinion that's true.

9 Q. On Page 23 of your direct at lines 418 to
10 420 --

11 A. Just a minute please: Yes.

12 Q. -- you state: "If one takes into account
13 the cost of these features, some wireless plans are
14 actually cheaper than comparable wireline plans."

15 Is this true for customers who have just
16 a phone line and use minimal amount of usage each
17 month and have no other services?

18 A. Obviously not. And that's not what I
19 stated.

20 Q. On Page 24, line 429, you talk about a
21 comparison you did that examines the price value
22 relationship?

1 **A.** Yes.

2 **Q.** Would you agree that for certain consumers
3 price is the primary, if not only, the
4 consideration?

5 **A.** Primary, perhaps, not only.

6 I don't think any one in the general
7 economy makes determinations as among competing
8 products just on price. But it's certainly a
9 primary factor for many people, not for most
10 people.

11 **Q.** Now, you indicate on Page 27 of your
12 testimony at lines 470 to 472: "That in my opinion
13 wireless services are both functionally equivalent
14 to, then parenthetical, that is they enable users
15 to make and receive calls in their homes and
16 substitute for wireless basic local exchange
17 service?"

18 **A.** Yes.

19 **Q.** What are you relying on for the assertions
20 that in the AT&T Illinois service territory that
21 wireless phones are going to actually work in each
22 and every household from a technical standpoint?

1 **A.** I don't either assume or assert that they
2 do in a particular household.

3 **Q.** Well, in your opinion, when you were
4 labeling a functional equivalent, you, in the
5 parenthetical said it enabled users to make and
6 receive calls in their homes.

7 Now what I'm asking you is would you
8 concede that a wireless phone is not going to work
9 in every house in the service territory?

10 **A.** Yes, but that does not change my conclusion
11 of that I reached here.

12 **Q.** I'm just trying to probe, sort of, the
13 limits of the technology?

14 **A.** Then why don't you ask me about the limits
15 of the technology?

16 JUDGE HILLIARD: Sir, let him ask the questions,
17 you just answer them.

18 THE WITNESS: Is there a question pending?

19 JUDGE HILLIARD: No.

20 BY MR. GOLDENBERG:

21 **Q.** Have you done any testing or analysis to it
22 determine whether dead zones exist within the AT&T

1 service territory with respect to any of the
2 wireless providers you looked at?

3 A. No.

4 Q. Have you looked at any studies that have
5 done that?

6 A. No.

7 Q. Are you familiar with what a dead zone is?

8 A. Yes.

9 Q. Would you agree that service quality with
10 respect to wireless services is not as good with
11 quality with a wireline service?

12 A. Not necessarily.

13 Q. Do wireless phones work in a high-rise at
14 all heights absent any enhanced technology that
15 would cure the signal-strength issues?

16 A. Can I ask a clarification?

17 Are you asking me again about this
18 specific market or are you asking me generally?

19 Q. AT&T general service territory.

20 A. I said I had done no measurements like that
21 so --

22 JUDGE HILLIARD: You can't answer the question.

1 THE WITNESS: I can't answer the question.

2 BY MR. GOLDENBERG:

3 Q. On Page 36 of your direct testimony, you
4 refer to a survey you did of wireless and wireline
5 customers.

6 And you indicated that your goal was to
7 complete 1,200 wireline and 1,200 wireless
8 interviews, and that a few extra interviews were
9 actually conducted.

10 How many interviews were conducted in
11 each municipality in the Chicago area?

12 A. In each municipality?

13 Q. Yes.

14 A. I haven't run the cross-tab to see. We
15 didn't divide it in municipalities. We went by
16 exchanges and groups of exchanges.

17 Q. What attempts were made in the conducting
18 of your survey to consider income levels of
19 respondents?

20 A. None. We didn't ask about income.

21 Q. How many of the respondents were in
22 retirement homes?

1 **A.** This is the wireless survey?

2 **Q.** Both.

3 **A.** We didn't ask.

4 **Q.** You indicated at lines 625 and 626 of your

5 direct testimony that you directed the design of

6 the questionnaire in consultation with KS&R,

7 Analysis (sic) Systems and Research, correct?

8 **A.** Yes.

9 **Q.** Was AT&T Illinois involved in the design of

10 the survey?

11 **A.** No.

12 **Q.** Was it prepared specifically for this case?

13 **A.** Yes.

14 **Q.** Did you have the ability to add questions

15 to either of the surveys?

16 **A.** I said we developed them in conjunction

17 with the KS&R.

18 **Q.** I'm just trying to make a record.

19 Did you have an ability to add questions

20 to either of the surveys, you personally?

21 **A.** Yes. The only quibble I have to add is we

22 designed the questionnaire for this survey. So I

1 was involved in that.

2 Q. It's a foundational question.

3 I'm just asking you did you?

4 A. Yes. Yes, I could have asked them to ask

5 any question I wanted them to ask.

6 Q. That's my question.

7 In either the wireline or wireless

8 survey, did you ever ask whether the person

9 answering the phone and taking the survey was the

10 decision-maker with respect to the telephone

11 service that they were using?

12 A. No, that wasn't the goal.

13 Q. Did you ever ask them specifically about

14 their needs as consumers; for example, did they

15 have home alarm systems, special home healthcare

16 needs, or specific quality requirements when you

17 did the survey?

18 A. No.

19 Q. Did you ask any questions about income?

20 MS. SUNDERLAND: That was asked and answered.

21 THE WITNESS: I believe I said no.

22 JUDGE HILLIARD: Sustained.

1 BY MR. GOLDENBERG:

2 Q. Did you try to probe how much price impacts
3 their purchasing decision?

4 A. No. We had 10 minutes to complete this
5 survey. So there is a limit about any questions
6 you can ask if you know anything at all about
7 survey research.

8 Q. What's the margin of error in your survey?

9 A. The margin of error is laid out beside the
10 responses for each of the questions.

11 Q. Is there an overall margin of error for the
12 survey?

13 A. No. We present it by actual results. I
14 mean, the number that comes to mind is plus or
15 minus five. But, again, each result is in a
16 confidence interval laid out beside each answer to
17 each question.

18 MR. GOLDENBERG: I have no further questions.

19 JUDGE HILLIARD: Anybody else have anymore
20 cross?

21 MR. HARVEY: Nothing from staff, your Honor.

22 JUDGE HILLIARD: Redirect?

1 MS. SUNDERLAND: Just a minute.

2 (Whereupon, a recess was taken.)

3 MS. SUNDERLAND: We have no redirect.

4 JUDGE HILLIARD: The witness is excused.

5 Thank you.

6 (Whereupon, the witness

7 was excused.)

8 JUDGE HILLIARD: Let's have a 10-minute break.

9 (Whereupon, a recess was taken.)

10 JUDGE HILLIARD: Call your next witness please.

11 MR. ANDERSON: We call Sandy Moore.

12 (Witness sworn.)

13 SANDY MOORE,

14 called as a witness herein, having been first duly

15 sworn, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY

18 MR. ANDERSON:

19 Q. Would you please state your full name and

20 business address for the record.

21 A. My name is Sandy M. Moore. My business

22 address is 2000 West AT&T Drive, in Hoffman

1 Estates, Illinois. The zip code is 60196.

2 MR. ANDERSON: Ms. Moore is sponsoring testimony
3 which has been marked for identification in AT&T
4 Illinois Exhibit 2.0 with several attached
5 schedules.

6 And I would move at this time for the
7 admission of that testimony into the record and
8 tender Ms. Moore for cross-examination.

9 JUDGE HILLIARD: Is there any objection?

10 MS. SATTER: No.

11 JUDGE HILLIARD: Could you identify the
12 schedules for the record please.

13 MR. ANDERSON: Yes. And for the last witness
14 too.

15 For Ms. Moore's testimony, she sponsors
16 Schedules SMM-1 through SMM-9. There are nine
17 schedules in all attached to her testimony.

18 JUDGE HILLIARD: How about for Mr. Shooshan?

19 MR. ANDERSON: I have to pull out Mr. Shooshan's
20 testimony.

21 JUDGE HILLIARD: Schedules 1 through 7.

22 MR. ANDERSON: With his direct testimony.

1 Mr. Shooshan sponsored eight schedules, schedules
2 HMS-1 through HMS-8.

3 Subject to check, I do not believe
4 Mr. Shooshan sponsored any schedules in response to
5 his rebuttal testimony.

6 JUDGE HILLIARD: Hearing no objection,
7 Exhibit 2.0 and HMS Schedules 1 through 9 will be
8 admitted.

9 (Whereupon, AT&T Illinois Exhibit Nos. 2.0,
10 Schedules 1 through 9 were admitted into evidence.)

11 MS. SUNDERLAND: I don't believe so, but I'll
12 check the official version back at the office.

13 JUDGE HILLIARD: Before the hearing is over, if
14 you could check the other witnesses because when I
15 do a report, I should note all the schedules in
16 addition to the testimony.

17 MS. SUNDERLAND: All right.

18 MR. ANDERSON: I can speak for Mr. Weber. He
19 had one schedule.

20 JUDGE HILLIARD: Okay.

21 MR. ANDERSON: The revised schedule JHW-R1.

22 Ms. Moore is available for

1 cross-examination.

2 JUDGE HILLIARD: Okay.

3 CROSS EXAMINATION

4 BY

5 MS. SATTER:

6 Q. Good afternoon.

7 A. Good afternoon.

8 Q. My name is Susan Satter. I'm appearing on
9 behalf of the people of the State of Illinois.

10 In your testimony you talk about whether
11 competitive services are substitutes for Illinois
12 Bell's local exchange service about packages of
13 telephone service; is that correct?

14 A. Could you point to the page in my testimony
15 you are referring to?

16 Q. I'm asking you in general --

17 A. Just in general.

18 Q. -- whether those services are subjects that
19 your testimony --

20 A. That's correct. I talk about the
21 competition in the marketplace and whether they're
22 the same or substitute products.

1 Q. Now, your job is to analyze competitors'
2 offers; is that correct?

3 A. That's part of my job.

4 Q. And do those include a local service
5 offerings?

6 A. Yes. I am responsible for access lines,
7 local packages. So the competitors that I would be
8 studying would be competitors in that arena.

9 Q. Does it include providers of toll services?

10 A. Yes.

11 Q. And long distance services?

12 A. I do not have responsibilities for long
13 distance.

14 Q. What about internet services?

15 A. Internet services, like cable modem or DSL?

16 Q. Yes.

17 A. No.

18 Q. And the wireless services?

19 A. No.

20 Q. RTV or video?

21 A. No.

22 Q. So the only services that you look at are

1 local exchange services, and did you say toll?

2 **A.** Yes. In terms of my responsibilities, I
3 have, like I said, access lines, toll, packages,
4 vertical services, calling card operator services.

5 And then in certain aspects of my job, I
6 do understand bundles that are offered by
7 competitors, but from a product marketing
8 perspective, I'm not responsible for those other
9 products.

10 **Q.** And do you make it your business to know
11 what services non-Illinois Bell companies offer?

12 **A.** Yes.

13 **Q.** And you also know the rates and services
14 that your company offers, correct?

15 **A.** That's correct.

16 **Q.** And you understand that those services are
17 tariffed, correct?

18 **A.** Most services are tariffed.

19 There are some packages that we offer
20 that use components of the tariff, and then are
21 billed upon that, and that's what we offer to
22 customers.

1 **Q.** So are you saying that some of your
2 marketed services are not specifically tarified as
3 to those packages?

4 **A.** For example, the Enhanced Choice Package
5 you were talking to Mr. Shooshan about, that's made
6 of U Select 6, but it also includes the line
7 backer. And the market name for that is Enhanced
8 Choice.

9 **Q.** So that would be a combination of
10 competitive and noncompetitive services?

11 **A.** That's correct.

12 **Q.** Is that also true -- do you understand all
13 of the charges appearing on an Illinois Bell bill?

14 **A.** When you say, do I understand all the
15 charges?

16 **Q.** Do you know that there are charges or than
17 the advertised price?

18 **A.** Our advertised price is for a package.

19 I'm not sure if I know what you are
20 referring to.

21 **Q.** Do you know that there is a \$4.50 sometimes
22 called a subscriber line charge, sometimes called a

1 federal access line charge?

2 A. I'm aware of that charge, yes.

3 Q. And is it correct that that \$4.50 charge

4 applies to the packages as an additional charge?

5 A. That would be accurate.

6 Q. And do you know whether other competitors

7 of Illinois Bell have a similar charge?

8 A. I'm not 100 percent certain on the EUCL,

9 but I believe so.

10 Q. Would you agree that the EUCL as you refer

11 to it --

12 A. That's correct.

13 Q. -- is part of the bill that the consumer

14 ultimately pays?

15 MR. ANDERSON: Whose billing are you referring

16 to? Does the question relate to AT&T Illinois

17 services?

18 MS. SATTER: Yes.

19 THE WITNESS: From an AT&T Illinois perspective,

20 yes, the customers are charged a EUCL charge.

21 BY MS. SATTER:

22 Q. So that effects their total bill?

1 **A.** That is correct.

2 **Q.** And do you know whether the total bills of
3 other companies who are competitors of Illinois
4 Bell also include a EUCL-type charge?

5 **A.** Again, I'm not certain of which ones have
6 EUCLs and which ones do not.

7 **Q.** In reviewing the advertising strategies of
8 these competitors, have you ever seen references to
9 that add-on charge?

10 **A.** No, I have not.

11 **Q.** Have you reviewed the tariffs of those
12 competitors to see if they have that charge?

13 **A.** Not for that charge, I have not.

14 **Q.** Have you reviewed the bills of other
15 carriers to see if they have a charge?

16 **A.** Not for that charge.

17 **Q.** You refer to the MCI neighborhood rate in
18 your testimony?

19 MR. ANDERSON: Can you refer us to a specific
20 page and line number.

21 MS. SATTER: That would be Page 5. It begins on
22 line 103.

1 BY MS. SATTER:

2 Q. Do you know whether MCI includes any
3 additional surcharge to this rate that you have
4 listed here, this \$33.99?

5 A. I don't know with certainty what taxes and
6 surcharges they charge. But I will tell you that
7 most competitors do have taxes and surcharges that
8 are applied to customers' bills.

9 Q. But you would agree that MCI Neighborhood
10 would have an network access charge of \$6.50?

11 MR. ANDERSON: I'm sorry. Can I have the
12 question read back or can you repeat it.

13 BY MS. SATTER:

14 Q. I'm asking you whether you know that MCI
15 includes a \$6.50 network access charge on its bill?

16 A. I'm not aware of that.

17 JUDGE HILLIARD: Is that in addition to the
18 stated price or is that --

19 MS. SATTER: In in addition to the stated price.

20 THE WITNESS: Again, I was looking at their
21 package prices and really wasn't assessing what
22 their surcharges and other charges might be.

1 BY MS. SATTER:

2 Q. You refer to the Sage Company on Page 6 ,
3 line 129 that is \$24.90 price.

4 Are you aware that Sage Telecom has a
5 EUCL?

6 A. I'm not aware of whether they do or they
7 don't.

8 Q. Are you aware that Sage Telecom has a \$7.50
9 EUCL that they add to their rate?

10 MR. ANDERSON: I'm going to object. All these
11 questions assume facts not in evidence.

12 MS. SATTER: I'm asking --

13 MR. ANDERSON: If you want to ask her if she
14 knows what they charge. But you are making a
15 statement as a statement of fact.

16 MS. SATTER: I'm asking a question whether she
17 knows that. She can say she knows it or doesn't
18 know it.

19 THE WITNESS: I can tell you for each of the
20 competitors, I study their package rates and rates
21 they have in the market, but did not look at other
22 surcharges they have on their bill.

1 BY MS. SATTER:

2 Q. Would you agree that customers would be
3 motivated to stay with a competitor or find another
4 company by their total bill rather than by the
5 advertised price?

6 A. Not necessarily.

7 I think it's up to the customer to
8 really look at, you know, what are they interested
9 in; do they pay attention to their total bill, do
10 they look at the package price.

11 I think you will see the mix out there
12 where some customers want to know the value they're
13 getting for the package and some are going to look
14 at their total bill.

15 Q. So if they see an advertised price that
16 varies significantly from their bill, what will you
17 as a marketer expect their response to be?

18 A. I think customers understand for
19 telecommunications that there are some additional
20 surcharges and taxes that they pay on top of their
21 bill.

22 Q. In your Exhibit SMM-6, you include various

1 advertisements. And, specifically, you include
2 three pages from the T-Mobile Website?

3 A. This schedule is specifically for wireless
4 providers, information on their Website.

5 Q. Have you checked the Website since you
6 filed the testimony?

7 A. No, I have not.

8 Q. So you don't know whether the 1999 rate is
9 still available, do you?

10 A. No, I don't.

11 JUDGE HILLIARD: When did you file your
12 testimony?

13 THE WITNESS: My testimony was filed in January.

14 BY MS. SATTER:

15 Q. And you haven't check it had between
16 January and today?

17 A. That is correct.

18 Q. How often do you monitor competitors'
19 prices for purposes of developing marketing plans?

20 A. Again, I'm not responsible for wireless,
21 per se.

22 So I focus more on the local packages

1 that competitors offer. So we have a separate
2 market organization and competitive intelligence
3 groups, and they help us out by really producing
4 weekly reports and telling us what competitor
5 activity goes on.

6 So that group is really responsible for
7 going out on a regular basis and sharing it with
8 other marketing individuals.

9 Where really my organization is not
10 staffed to personally go out on a regular basis.
11 We rely on that other organization.

12 **Q.** And that organization has not given you any
13 additional intelligence on --

14 **A.** Not specifically these websites, but I do
15 get weekly information from them as to what's going
16 on in the market.

17 **Q.** Do you know whether T-Mobile has changed
18 its rate?

19 **A.** Not specifically to these plans, I do not.

20 **Q.** On Page 20 of your testimony, you say that
21 Illinois Bell has marketed a no-frills access line
22 offer to wireless customers?

1 **A.** That's correct.

2 **Q.** What is that no-frills tariffed rate?

3 **A.** It's really offering just the basis access

4 line to customer.

5 **Q.** So that would be the stand-alone access

6 line?

7 **A.** That's correct.

8 **Q.** And has your company identified customers

9 who have cut the cord and use mobile lines?

10 **A.** From a service rep perspective, customers

11 call in to disconnect. We do ask our

12 representatives to ask the customer why they leave

13 us.

14 Unfortunately, most the time you see a

15 big bucket of no further use where you don't have

16 the details behind why is there no further use.

17 But there is a code we have that says

18 they went wireless only. So for this specific

19 offering, we would market to those folks we knew

20 who substituted wireline service for wireless.

21 **Q.** Now, an affiliate of AT&T Illinois offers

22 wireless service, correct, that's Cingular

1 Wireless?

2 **A.** That's correct.

3 **Q.** But to the best of your knowledge Cingular
4 Wireless does not require a wireline connection in
5 order to purchase wireless services; is that
6 correct?

7 **A.** No, they do not.

8 **Q.** Now, an affiliate of AT&T Illinois also
9 offers high-speed internet connection; isn't that
10 right?

11 **A.** That is correct.

12 **Q.** And you would agree with me that today that
13 affiliate of AT&T Illinois requires an AT&T
14 Illinois local telephone connection in order to
15 obtain DSL service?

16 **A.** Currently, that is correct.

17 **Q.** Now, do you review the total bills, the
18 total bill amount that consumers pay in developing
19 the marketing plans?

20 **A.** Not really.

21 We really look at what is the offering
22 that we are making to the customer in terms of the

1 service or the product and how does that compare to
2 the competitors.

3 Q. So you only look at the advertised rate?

4 A. That's one way of looking at it, yes.

5 MS. SATTER: I have no further questions.

6 JUDGE HILLIARD: Any other cross?

7 MR. HARVEY: Nothing from staff, your Honor.

8 MR. GOLDENBERG: No questions.

9 JUDGE HILLIARD: Okay.

10 Redirect?

11 MR. ANDERSON: One second please.

12 (Whereupon, a recess was taken.)

13 MR. ANDERSON: I have a couple of questions on
14 redirect, your Honor.

15 JUDGE HILLIARD: Go ahead.

16 REDIRECT EXAMINATION

17 BY

18 MR. ANDERSON:

19 Q. Ms. Moore, during cross-examination, you
20 were describing a package which consisted of -- or
21 a bundle which consisted of the U-Select Package
22 plus line backer, correct?

1 **A.** That's correct, Enhanced Choice.

2 **Q.** And I believe you were asked whether that
3 included a combination of competitive and
4 noncompetitive services.

5 Do you recall that question and answer?

6 **A.** Yes.

7 **Q.** Would you clarify the category of services
8 that that is included in that package?

9 **A.** Yes. It's actually regulated and then the
10 line backer plan is a deregulated product.

11 **Q.** You were also asked whether any of AT&T
12 Illinois' competitors may add taxes and surcharges
13 to the advertised price for their local exchange
14 services.

15 Do you recall that question?

16 **A.** Yes, I do.

17 **Q.** Does AT&T Illinois add taxes and surcharges
18 to the advertised prices of its services?

19 **A.** Yes, we do.

20 MR. ANDERSON: I have no further questions.

21

22

1 CROSS EXAMINATION

2 BY

3 JUDGE HILLIARD:

4 Q. Ma'am, what services are provided by the
5 line backer?

6 A. It's basically a wire maintenance plan. So
7 it gives consumers protections if there's wiring
8 problems inside their home, so they pay a
9 reoccurring monthly fee rather than having someone
10 come out, a technician come out and pay an hourly
11 rate.

12 Many of the competitors offer a similar
13 service.

14 Q. What's the distinction between local
15 service and local toll service?

16 A. When I think about local service, I think
17 about the local service, the access line and local
18 toll would be the usage -- I'm sorry the toll would
19 be the Band C usage.

20 Q. I'm sorry?

21 A. When I think about local service, to me it
22 means providing the customer with dial tone, and

1 your local service. And when I think about --

2 Q. All right. Can you define local service,

3 what constitutes besides dial tone? What is your

4 calling range?

5 A. The calling range?

6 Q. Is it geographic?

7 A. It really varies by state.

8 I mean, in Illinois, of course, with

9 measured-rate service, you know, you have your

10 local calling areas, which would be your Band A and

11 Band B and Band C, you know, crosses over into the

12 toll arena. So it's really more mileage-based in

13 Illinois.

14 Q. Are there any parameters on -- I mean, so

15 does everybody get so many miles in Band A, Band B

16 and Band C?

17 MR. ANDERSON: At what mileage point does Band C

18 begin?

19 THE WITNESS: It's over 15 minutes.

20 JUDGE HILLIARD: Over 15 miles from the point of

21 access?

22 MR. HARVEY: Origination perhaps.

1 THE WITNESS: I believe it's origination of the
2 CO.

3 MS. SUNDERLAND: Serving CO.

4 THE WITNESS: It might be the serving CO for to
5 us measure that, but I'm not 100 percent certain.

6 JUDGE HILLIARD: Band B, where does that start?

7 THE WITNESS: That starts at 7 or 8 miles. I'm
8 sorry.

9 BY JUDGE HILLIARD:

10 Q. Where does -- what is the distinction
11 between local toll and when you get beyond local
12 toll calls, Band C?

13 A. Basically, under the mileage, it's
14 considered a local toll and over the mileage is
15 considered a toll call, but it's still carried by
16 AT&T the Tel Co.

17 Q. If I want to call Rockford, what kind of a
18 call is that from here?

19 A. I believe that would be considered a local
20 toll call.

21 Q. Is that Band C?

22 MR. HARVEY: That's long distance.

1 MS. SUNDERLAND: That's long distance.

2 MR. ANDERSON: The distinction is between within
3 the LATA and interLATA.

4 JUDGE HILLIARD: Okay. Tell me what a LATA
5 means.

6 MR. HARVEY: Local access and transport area.

7 JUDGE HILLIARD: What does that mean?

8 MR. HARVEY: It's a somewhat curious distinction
9 set by Judge Green in 1982.

10 I think it's defined in our statute, and
11 it's the same as MSA for these purposes. I don't
12 think, hopefully, I'm not testifying to this but.

13 MR. ANDERSON: Sounds good to me.

14 MS. SATTER: I think just for clarification, the
15 LATA was set up when AT&T was originally broken up
16 back in the early 80s.

17 MR. HARVEY: Judge Green's order back in 1982.

18 MS. SATTER: And the judge set up what they call
19 LATAs.

20 MR. WARD: We can call Mr. Green, he designed
21 the LATAs.

22 MS. SUNDERLAND: He designed the MSAs.

1 MS. SATTER: The calls between the LATAs are
2 long distance. The calls within the LATAs are
3 toll.

4 MS. SUNDERLAND: Until recently, we were not
5 permitted to provide long distance calling, so
6 there had to be defined geographic areas that were
7 considered okay for the local company to provide
8 service, so those were LATAs.

9 In Illinois we call them MSAs. There
10 are a number of them in the State of Illinois. So
11 calling within those LATAs are kind of divvied up
12 into buckets. And the very local calls are Band A
13 under 8 miles; Band B is 8 to 15; Band C is 15 and
14 up. And then just to confuse it a little more, if
15 you want to call an independent company territory,
16 that's call toll.

17 MS. SATTER: Local toll.

18 MS. SUNDERLAND: But it's on a different rate
19 schedule.

20 MR. HARVEY: May I suggest that the judge
21 appears to want some evidence of this. And with
22 lawyers talking, that is not what he's getting.

1 MS. SUNDERLAND: He is getting good information.

2 MR. HARVEY: I don't doubt it's excellent

3 information.

4 MR. GOLDENBERG: Can you put it in through a

5 witness or write up something?

6 MR. HARVEY: We can probably come up with some

7 sort of a joint stipulation as to what LATA and MSA

8 is.

9 MS. SUNDERLAND: Why don't we come up with a

10 joint document that explains what these things are.

11 MR. WARD: They're defined in the Public

12 Utilities Act.

13 MS. SATTER: And tariffs.

14 JUDGE HILLIARD: But the practicalities of it

15 are always kind of elusive.

16 MR. WARD: If you know somebody at the Commerce

17 Commission, they have a map that will they can show

18 it to you.

19 MR. HARVEY: We have a big one upstairs if you

20 want to see it.

21 MS. SATTER: It's in Exhibit 7 or 8 in the

22 Telecommunications Report that the Commission puts

1 out. That's good source for the map.

2 JUDGE HILLIARD: All right. So I guess I'm

3 through asking questions.

4 MR. ANDERSON: If you're through, I'm through.

5 MS. SATTER: Can I just ask one question in

6 follow-up.

7 JUDGE HILLIARD: All right.

8 RECROSS EXAMINATION

9 BY

10 MS. SATTER:

11 Q. Ms. Moore, isn't it true that the Band A

12 and Band B calls are charged on a per-call basis?

13 A. That's correct.

14 Q. And the Band C and toll calls are charged

15 on a per-minute basis?

16 A. That is correct.

17 MS. SATTER: Thank you.

18 JUDGE HILLIARD: Are the rates for Band C calls

19 the same as rates for intraLATA calls?

20 MS. SUNDERLAND: No.

21 THE WITNESS: No.

22 JUDGE HILLIARD: All right.

1 MR. HARVEY: Your Honor, could I inquire as to
2 one matter?

3 JUDGE HILLIARD: Sure.

4 MR. HARVEY: First of all, do we have any
5 further information about Mr. Svanda's lengthy date
6 of appearance?

7 MS. SUNDERLAND: We will not know until tonight
8 whether he is going to be called tomorrow.

9 MR. HARVEY: So we might expect him tomorrow?

10 MS. SUNDERLAND: Possibly.

11 MR. HARVEY: That's all I wanted to know.

12 MS. SUNDERLAND: There is a possibility each
13 day, unless he gets called for a multi-day trial,
14 in which case, there will be no possibility. We
15 are hoping that eventuality does not come to pass.

16 MR. HARVEY: 10:00 o'clock tomorrow, your Honor?

17 JUDGE HILLIARD: That's fine.

18 (Whereupon, the above-entitled matter
19 was continued to April 4th, 2006, at
20 10:00 a.m.)

21

22